Germany

Reality Does Not Permit Budget Balancing

by Rainer Apel

The economic policy announced on Oct. 16 by the two parties of the re-elected government of Germany—Social Democrats (SPD) and Greens—lacks any grand design for recovery from the depression state of the European economy, and so resorts, for now, to more of the already-failed policy of austerity.

The new Cabinet has failed to take up reasonable, though limited initiatives against monetarism, put forward during the election campaign. A project discussed by government experts in mid-August, to create incentives for the productive *Mittelstand,* the small and mid-sized German industries, through state-guaranteed infrastructure and construction bonds in the range of 150 billion euros, has been dropped. Proposals to create additional maneuvering room for the government to act against the economic depression with special investment and labor market programs, by lifting the Maastricht budgeting criteria of the European Union, has not found support among the German government, yet. Proposals to do more than to merely restore the infrastructure and industrial capacities destroyed by the August flood catastrophe in eastern Germany—to allocate more funds and go for some bold designs of economic development—have not been listened to, either.

The fact that Green party ecologists sit in the new Cabinet, implies that Chancellor Gerhard Schröder's second term will continue the policy of an "exit" from nuclear technology—a rather insane decision when world developments may feature a war in the Middle East oil-producing region, with an uncertain future for the oil supplies to Europe. And the government's decision to tax natural gas at the same level as crude and heating oil, from 2003 on, means an additional burden on the consumer—and that is the vast majority of citizens in Germany, who depend on affordable natural gas for their household heating. In terms of securing energy supplies, the new government has failed already at its start.

Still Genuflecting to Maastricht

Instead, the new government's platform states loyalty to the Maastricht criteria and to the policy of reaching a balanced budget during 2004-2006. The French government, by comparison, has already publicly thrown off this balanced-budget goal.

There is now a Europe-wide debate over those criteria which the Germans still pay so much homage to, so that a review, if not total collapse of the Maastricht system, even before the end of the year, cannot be ruled out. The German pro-Maastricht loyalty is, in reality, only lip-service to a system that no longer works, and which is no longer respected anywhere in Europe. The government platform presented to the public in Berlin, may not be the last word, therefore.

The only potentially good aspect in the platform is the commitment to increase the government's direct investments from 22.9 to 29 billion euros, in 2003—an increase by almost 30% over 2002. This does include 4 billion for reconstruction of the flood-devastated regions in east Germany. Related, is the commitment to give more incentives to the *Mittelstand* in eastern Germany, notably in the municipalities, and to put the emphasis on public sector infrastructure development in the east. There, a role for the Kreditanstalt für Wiederaufbau (Reconstruction Finance Agency) is addressed in the government platform, though limited in scope to 10 billion euros, annually.

The government's strange balanced-budget commitment is undermined already by a drop in tax revenues of 14 billion euros this fiscal year. Finance Minister Hans Eichel admitted a few hours after the presentation of the platform, that the German government will not be able to stay below the Maastricht limit of 3% of GDP in new debt, this year! The real situation may prove worse, when the next official half-year tax review is presented around mid-November: a gap not of 14, but of 20 billion euros is likely, according to numerous experts. An economy with an unprecedented 42,000 corporate bankruptcies this year is slashing the number of taxpaying firms and workers.

The new government ought to create incentives for the most productive sectors, such as aerospace, nuclear technology, transportation systems like the maglev train, machine-tool production, and manufacturing in general. This will employ more skilled workers and engineers, reduce expenses for unemployment support, and help to build a sound tax-revenue base for the future. What Berlin intends instead, is to just fill the 14 billion euro hole in the budget. In FY 2003, Berlin plans to raise 11.6 billion euros in new tax revenues: 7.4 billion by cancelling value-added-tax rebates, and 4.2 billion from the next stage of the ecology tax (on natural gas). This, plus the cancellation of state support to non-family homeowners, will burden the population in general. In addition, billions in new budget cuts will hit the unemployment administration (4 billion), long-term jobless support (2.3 billion), and the public pension system (1 billion). With that, the new government will soon get into serious conflict with the labor unions and aid organizations.

The certainty remains, that economic reality will assert itself with such shocks, that the government will be forced to abruptly change course, stop its futile budget-balancing, and throw the SPD-Green platform on the garbage heap.