Germany Is Paralyzed By Fiscal Emergency

by Rainer Apel

"The next tax revenue forecast in November will reveal new financial shortfalls. Budget-cutting policy, however, is the worst choice under the conditions of combined world financial crisis and depression: every other round of budget cuts destroys more productive capacities, so that the hole in the state treasury increases further, because of shrinking tax income—it is an endless downward spiral."

Thus Civil Rights Movement Solidarity (BüSo) chairwoman Helga Zepp-LaRouche, on Oct. 23, urgently warned the German government against continuing its austerity policy, in an open letter mass-distributed nationwide since then. Now, the official November tax revenue forecast has been publicized, and it has corroborated all earlier, unofficial warnings of a disaster.

Adding severity to the rapidly worsening economic crisis, a political scientist who is a leading "Anglo-American asset" in Germany publicly called for reviving the type of emergency law—*Notverordnung* in German—under which Hitler was allowed to become dictator in 1933. In the *Frankfurter Allgemeine Zeitung* of Nov. 19, 70-year-old Arnulf Baring, long known as an Atlanticist in the camp of the ultra-"free trade" Mont Pelerin Society, attacked the government for its failure to impose *a regime by emergency decree,* of the kind that Chancellor Heinrich Brüning had from the Spring of 1930 to the Summer of 1932, based on Emergency Article 48 of the Weimar Republic's constitution. Such emergency rule, Baring wrote, was necessary to impose "painful reforms by-passing the parliament, based on presidential emergency decrees."

In August, during the national elections, Helga Zepp-LaRouche's BüSo posters alerted Germans to coming financial crash; Chancellor Schröder's CDU went with "feel-good" posters. Now Germany is in galloping fiscal emergency, Schröder is speaking grimly of "pain," and Zepp-LaRouche "knows what to do."

Large and Growing Revenue Shortfalls

The public sector in Germany will run short by 15.4 billion euros, this present fiscal year, and another 16 billion in the coming fiscal year, the government's tax-forecasting board has found. This is by no means a precise assessment, but only a "correction" of the forecast given at the last half-year forecast in mid-May. The real facts on the fiscal disaster will be publicized only with the next yearly forecast, in mid-May 2003.

An immediate consequence of this November forecast is that Finance Minister Hans Eichel is forced to declare "a disturbance of the economic balance"—an emergency, in other words—and to call for a substitute budget exempt from Article 115 of the German Constitution, which bans the state from borrowing more money than it spends on real public sector investments. With the 34.6 billion euros (13.5 billion above original plans) that Eichel intends to borrow, he misses the Article 115 standard by 6 billion this fiscal year. The gap will remain, and it will even increase in tandem with the worsening general economic-financial situation.

Cities' Crisis Is Even Worse

The fact that for the first time in years, the labor market did not show the usual pre-Christmas recovery in October, but rather a further increase of jobless figures, is an indicator of troubles to come, as less employment means less taxes paid.

The tax revenue disaster is even worse on the level of the 16 German states and the municipalities—which do not have the legal leverage the Federal government possesses, mostly at the expense of the states and municipalities, to grab extra income by new taxes, tax increases, or cancellations of rebates. The trend shown in the forecasts made by the 16 states, indicates that their tax shortfall is closer to 20 billion euros than the officially admitted 15 billion, already this ongoing fiscal year. The two southern states of Bavaria and Baden-Württemberg, with proportionately lower jobless rates than the rest of Germany, estimate tax shortfalls of 2 billion and 1 billion euros for this and the following fiscal year, respectively. The State of Hesse and the State of Lower Saxony expect budget holes of 2 billion and 2.7 billion euros for this and the coming fiscal year, respectively; the city-states of Bremen and Berlin expect shortfalls in the range of 380 and 900 million, respectively, for 2002 and 2003. Eight of the 16 states have entered procedures for a substitute budget already; at least four other states are ex-

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pected to do so, in the near future.

The situation of the German municipalities is even more dramatic, as many of them do not have any income from corporation or trade taxes anymore, and many cities are in the situation of Offenbach, where one of the biggest single calculable sources of income is the dog tax. The Offenbach municipality has the illusion now of being able to "privatize" its 88 schools and day-care centers, making some extra million euros with that.

The general situation of the municipalities is indicated by the fact that of the State of North Rhine-Westphalia's 25 big cities, 21 are virtually bankrupt and are administered under fiscal supervision of the state government, which means they have to get every single euro spent in the municipality, okayed by the state first. And of the State of Hesse's five big cities, including Germany's banking center Frankfurt, all are under that kind of state supervision.

The budget-cutting priority of the Federal government, which plans to force the states to make even bigger cuts at the end of November, has come under massive, increasing public attack—not only by the cities and the states, but also by labor unions, medical associations, retired citizens' groups, and others.

In an effort to play down the mounting criticism, a visibly enervated Chancellor Gerhard Schröder claimed on Nov. 18 that there was no alternative to his government's approach. He said Germany stood at the "beginning of a painful development," which would necessarily include an "in-depth restructuring of the social welfare state." He implied, without disclosing details, that there would be "no taboo" to any tax increase, except (for the time being) the value-added tax. But whatever extra money will be collected, will be spent on paying the debt, so that no extra funding of incentives for the real economy is possible under this policy.

Dead Weight of EU 'Stability Pact'

The German government is furthermore faced with punitive measures and billions of euros in fines by the European Commission, for missing the 3% debt-to-GDP ratio "target" (really an edict, which has gone from counterproductive to, currently, suicidal) of the Maastricht System, by 0.8% so far in the ongoing fiscal year. Either in a fit of insanity, or under massive blackmail by the private banks, Finance Minister Eichel has promised to balance the budget by 2006, and to reduce the gap visibly already in 2003. This alone implies additional budget cuts in the range of 10 billion euros, annually.

Germany's financial and fiscal emergency will get much worse, if that policy prevails over the next weeks. The "emergency rule" demanded by Arnulf Baring and other Mont Pelerinites is a desperate reaction to the financial collapse, a reaction forecast by Lyndon and Helga Zepp-LaRouche. Such demands will get rapidly louder unless Zepp-LaRouche's New Bretton Woods and Eurasian Land-Bridge policy is fought through, rapidly, instead.

Philippines

High Court Breathes Life Into Economy

by Michael Billington

The Philippines economy has been subjected to an escalating assault over the past year, on top of the destruction wrought by the 1997-98 speculative assault on the nation and its Asian neighbors. The government deficit has gone out of control as a result of collapsing tax revenues from the shrinking manufacturing base; national debt has skyrocketted to meet the deficit; the national currency, the peso, is sliding from its already 50% devalued state (from before the 1997 crisis), thus increasing the debt burden.

Nonetheless, the Filipino people are smiling this month, as, to the shock of even the most optimistic, the Supreme Court on Nov. 15 issued a ruling against one of the leading dynastic families in the nation, a ruling based on the nearly forgotten Constitutional principle that the "General Welfare of the citizenry" supersedes the "shareholder values" of the oligarchical elite.

'Economic Rights of the People'

The ruling came in a case brought originally in 1998 against the Manila Electric Company, known as Meralco, the Philippines' largest private power conglomerate, owned by the Lopez family, whose other holdings include the leading TV station in Manila, telecommunications, privatized waterworks, and extensive real estate. The suit accused Meralco of exceeding the legal limits mandated for energy price increases to consumers, beginning in 1994. The case won a lower court ruling, but was dismissed by a Court of Appeals in 2000, which barred the Energy Regulatory Board from forcing the country's biggest power distributor to issue a refund to its customers. The case then moved to the Supreme Court, under Chief Justice Hilario Davide—the same court which upheld the coup d'état in January 2001 against former President Joseph Estrada, a coup whose sponsors interfaced with the Lopez interests.

Thus, there was great surprise when the court ruled on Nov. 15 that Meralco must repay consumers a sum of $540 million for the excessive rates charged over the past eight years. Most important was the wording of the ruling: "In Third World countries like the Philippines, equal justice will have a synthetic ring unless the economic rights of the people, especially the poor, are protected with the same resoluteness as their right to liberty. In configuring the contours of this economic right to a basic necessity of life (like electricity),