## Report from Bonn by Rainer Apel

# No money, but lots of crazy ideas

*Loyalty to the International Monetary Fund will be the saw cutting away the leg of Chancellor Kohl's chair.*

A senior aide to the opposition Social Democrats (SPD) recently told this author that no matter whether Finance Minister Theo Waigel stays in office or not, he will be the saw that fells the tree of the present government. That comment came a few days after the mid-August leaks to the effect that Waigel was seriously considering resigning, ostensibly because he wanted to escape an untenable financial situation, expected for this autumn, that would make him look like "the man who made Germany bankrupt."

And indeed, the bad state of Germany's government finances has been made public even by the central bank, the Bundesbank, which, in its latest monthly report, warned of an "alarming erosion of the tax income base" and the consequences this will have on government finances.

The Bundesbank claimed that the shortfalls of tax income for all of 1997 would definitely be much bigger than the forecasts presented by the official Tax Assessment Commission in May. The first seven months of this year have shown that the overall public tax income had reached only DM 398.9 billion ($215.6 billion), instead of the "expected" DM 400-plus billion for the first six months. This means that, for all of this year, the actual tax income will be far below the DM 813 billion that served as the government's projection for its own calculations for 1997.

It it impossible to collect the DM 414 billion that is still missing from the annual total, in the remaining five months of 1997. Therefore, tax income shortfalls will be in the range of at least the average monthly tax receipts, or about DM 65 billion. Naturally, the government could employ "creative bookkeeping" methods and introduce a 13th month for the fiscal year, to compensate for the losses; but this would make the forgery all too evident. Instead, the government, which had its assistant finance minister, Jürgen Stark, publicly admit the tax shortfall disaster, prefers to cite from the latest report from the International Monetary Fund (IMF), as allegedly affirming "confidence" in the German government's policy.

However, the IMF said that only with more cuts in the "costly" social welfare, pension, and labor market budgets, would Bonn be able to compensate for the tax losses. But, how can the labor and social welfare budgets be cut, when an unexpected DM 18-21 billion more in state funds is required just for unemployment benefits in 1997, because national joblessness is 500,000 above the 1996 average?

Or, do Stark's references to the IMF imply that the government is intending to go for another brutal round of budget cuts, risking strikes, social protests, and other conflicts? The strikes of 1996 and early 1997 extracted so many concessions from the government, that most of its austerity plans for FY 1997 were undone.

It should also be noted, that the success of the Teamsters' strike against United Parcel Service in the United States, is in the minds of many labor union leaders and members in Germany now, and, as the nationwide strike of automobile workers in October 1996 showed, social protests can explode against the government at a moment's notice.

And, neither has Waigel been able to pull out from the cabinet, nor would the Chancellor let him go, at this moment; so, the fiscal policy disaster of the government will continue. Bonn may try to implement other measures that have been recommended by the IMF, such as a transformation of the state pension system into a private "social insurance fund," based on speculative operations on the "free" financial markets. With a lot of propaganda against the state pensions as not being safe, the alleged alternative of private pension funds is being advocated, as supposedly providing greater safety and relieving the Federal Treasury.

This hoax may work with young Germans, who are too young to recall the crash of October 1987. It will hardly work with the generations that are old enough to not only recall that crash, but to have a memory of the immediate postwar currency reform and the loss of private property that went along with it, and a memory of the deep recession of the mid-1960s and the cuts in living standards that went along with that. It is doubtful whether the generation that has reached, or is approaching retirement age, will accept a transfer of DM 300 billion handled by the state pension system, to the free markets—to be wiped out there by the same speculators who have wiped out the Thai and many other nations' currencies.

But, the millions of voters of the older generations have so far been a crucial, reliable constituency of Chancellor Kohl's governing Christian Democratic Union. Should Bonn really try to put the IMF "saw" to the state pension system, to create some relief on the state's budget and compensate for the inevitable tax income shortfalls, it would put also put the saw to Kohl's chances of re-election.