Germany Waits for A New Economic Policy

by Rainer Apel

On Oct. 29, German Chancellor Gerhard Schröder presented his re-elected government's platform for the next four-year term, in an address to the national Parliament. Against the background of his own, publicly stated doubts about the European Union's Maastricht budgeting criteria (see last week's *EIR*), it was not unrealistic to expect that in his government declaration, Schröder would reveal some details of an alternate policy.

In an "Open Letter to the Chancellor" released on Oct. 18, Helga Zepp-LaRouche, chairwoman of the BüSo party in Germany, had called on Schröder to go for a full break with monetarist policy and launch a national-bank-oriented strategy for massive productive investment projects. The perspective of the German industry's engagement for the development of the Eurasian Land-Bridge, she wrote, would offer Germany a chance to overcome its mass unemployment of almost 7 million (out of a total population of 83 million), and to get out of the world depression. Moreover, Germany should campaign for the New Bretton Woods financial system which U.S. Presidential pre-candidate for 2004, Lyndon H. LaRouche, has proposed, she wrote.

Schröder's Words—And Deeds

Schröder's address to Parliament posed a paradox: While speaking well on the Maastricht issue, in general terms, he still left no doubt that the government wants to stay within the budget-balancing paradigm, at the expense of the general welfare.

As far as the economic outlook is concerned, Schröder said that "a protracted uncertainty on the raw material and energy markets, caused by the explosive situation in the Near and Middle East, provide little grounds for hope in a short-term improvement of the world conjuncture. The classic instruments of stimulating consumption and investment through state subsidies and financial injections, are no longer available."

Schröder said that among the government's planned steps, the "restoration and modernization of infrastructure in the eastern states through an emphasis on public sector investment" ranks prominently, and that in order to make that possible, the Maastricht Stability Pact "should and must be interpreted in a more flexible way." Without revealing further details, he called for a mix of "growth-promoting investments by the state, intelligent budget cuts, and more honest and just taxation."

To that kind of approach, he said, there "is no reasonable and responsible alternative. He who, in a labile conjunctural situation, calls for even deeper budget cuts by the state, risks doing damage to the justified interests of the citizens." His government, Schröder said, does "not want an impoverished state that becomes incapable of acting. Such a state could be afforded only by the powerful and the privileged. But the society has a claim to a state that promotes the common good, offers opportunities, and organizes justice. For justice is more than the demand that everybody has to make sacrifices." Schröder called on the Germans for a national "partnership of responsibility," to master these challenges.

Whereas this was well-spoken, the reality of his government's near-term program speaks a different language, however: There, the Chancellor's commitment is to cut 11.6 billion euros in the 220 billion euro budget for fiscal year 2003. And of these 11.6 billion, 7.4 billion alone will be carved out of the budgets for the national unemployment office (4 billion), for long-term unemployed support (2.3 billion), and other social services. Another 4.2 billion euros are to collected by scrapping tax rebates for farmers and homebuilders, and through the ecology tax.

Response From Labor, Management

The labor unions, which generally support the present government coalition of the Social Democrats and the ecologist Greens, have already warned the Chancellor to change the emphasis on budget cuts in the labor and social welfare spheres. The public sector labor union, Germany's second-largest with more than 2 million members, has repudiated the Finance Minister's call for a zero-increase wage-bargaining round, and has demanded wage increases between 3.5 and 6.5%, for different categories of public sector workers and employees. With that, Germany may head into a big public sector strike, after February 2003.

Also from the employers' side, the Chancellor has received protests and warnings: The next stage of the ecology tax is a burden on production costs, and will translate into price increase of the end-products of industry; the elimination of the 50% rebate on the value-added tax for farmers' purchases of lifestock, fertilizer, and seeds will have the same effect on food prices. And it is, anyway, not a wise decision by the government to cancel subsidies to homebuilders, who thus will run short of several thousand euros a year. This may reduce housing starts by 50,000 in 2003, which will affect 200,000 construction workers—at a time in which private homebuilding accounts for a good part of national construction activity, whereas public sector projects are visibly reduced because of budget cuts.

There is a paradox between what the Chancellor said in his address, and what his government wants to do. The Chancellor has made a small step away from the old system of economics; but he had better recognize soon that it is impossible to achieve anything positive in the troubled gray zone between the old and the new economic system.