

## Report from Bonn by Rainer Apel

### A government collapse-in-progress

*Chancellor Helmut Kohl's coalition cabinet is being felled by its own false financial-economic axioms.*

There no longer can be any doubt: Germany's Christian-Liberal coalition government under Chancellor Helmut Kohl has its back to the wall. Kohl and his cabinet have maneuvered themselves into a deadly trap, by adhering to a set of false financial-economic policy axioms which make political solutions (for example, to the problem of growing mass unemployment) impossible.

For the remainder of FY 1997 and FY 1998, Germany faces an "unforeseen" budget deficit of about 50 billion marks. "Unforeseen" refers to the inability of the government's experts to notice the reality of deepening depression. The new "budget hole" Bonn is dealing with now, is the result of shrinking tax revenues and expanding social costs, which are the result of record levels of mass unemployment (4.35 million in May).

The strict observance of the Maastricht-European Monetary Union (EMU) convergence criteria, which ban new borrowings above 3% of GNP, and the budget-cutting mania of the government, have depressed the physical economy even further through ever new rounds of budget cuts over the past three years. Close to a half-million jobs were destroyed by this policy in 1996 alone. In its desperate attempts to fill the budget gap and meet the Maastricht-EMU criteria, without altering its basic budget-cutting policy axiom, the government faces these antinomies:

1. New borrowings, i.e., higher public debt, would mean violating the Maastricht-EMU criteria of limiting state debt to 3% of GNP.

2. Tax increases for FY 1997 have

been categorically ruled out by Kohl's liberal Free Democratic Party (FDP) minor coalition partner, which fears mass defections in its higher-income voter base.

3. Further in-depth budget and tax cuts, as called for by the FDP, are politically difficult, because after three years of unabated austerity, the social climate in Germany has become rather tense, as the mass strikes of several labor unions last March, which Kohl calmed down only by making budgetary concessions, have illustrated.

Moreover, the opposition Social Democratic Party (SPD) would probably block further cuts, because it controls the parliament's upper house (Bundesrat), and national elections, scheduled for September 1998, are approaching. Cuts in entitlements necessitate a change of law or a declaration of "fiscal emergency."

4. Extra revenues from accelerated privatizations of big state assets (real estate, airports, telecommunications, airlines, etc.) are difficult to realize on the market, when the government is so obviously dependent on selling as many assets as quickly as possible. Large-scale privatizations also violate the Maastricht criteria.

The virtual impossibility of applying one principle without violating another, or pleasing the Christian Democrats (CDU-CSU) without displeasing the FDP, has rapidly eroded the cohesion of the coalition since the end of May—and the FY 1998 draft budget must be presented to parliament before the summer recess, or the government would fall into the gray zone of a no-budget existence.

This war of nerves over this gov-

ernment's future is reflected in the daily press coverage. On June 3, the *Frankfurter Allgemeine Zeitung* reported that, at the previous day's otherwise highly depressive meeting of the CDU-CSU parliamentary group, Kohl only once received a round of applause, when he said: "I know quite well, that when you are home among your constituency, they ask you, 'What crap are you guys coming up with in Bonn!'" On June 7, the daily carried an article headlined "Bonn Coalition Is Preparing for the Worst." On June 10, the tabloid *Bildzeitung* leaked four scenarios, spun out by the three government coalition parties, for a change of government:

- A grand coalition between CDU-CSU and SPD, after the FDP pulls out of the cabinet, which would be in power until the next national elections in September 1998. If Kohl opted out, CDU parliamentary group chairman Wolfgang Schäuble would be CDU chancellor, and SPD party chairman Oskar Lafontaine would be vice-chancellor and foreign minister;

- Early elections, called after Kohl should lose a vote of confidence on the FY 1998 budget;

- A temporary CDU-CSU minority government could be formed until the September 1998 elections, after a walk-out of the FDP from the cabinet;

- Or, a cabinet reshuffle: The coalition manages to settle its conflicts over the budget and avoids bad media headlines for the time being; in the autumn, Kohl reshuffles the cabinet.

Analysts in Bonn have admitted, in private discussions with this author, that Kohl may prefer to reshuffle the cabinet, but it would risk tearing the coalition apart, and result in early elections. But, reality is likely to undo all the scenarios: The government may be gone before Bonn-watchers have come to an assessment whether it will stay or not.