Report from Bonn by Rainer Apel

Biggest austerity package ever

A panicked government is attempting a make-or-break effort to balance the budget.

The government is desperately trying to finish a draft fiscal year 2000 budget before the summer break. The costs of the NATO air war against the Serbs and of the postwar peacekeeping operations has come up, in addition to a hole in the government budget of 30 billion marks. The experts have discovered that they have no idea of how to fill that budget hole—which means that they are in the same situation they were 12 weeks ago, before the NATO air war began.

The hole emerged because of the drop in tax revenues, because industrial production and exports fell—opposite to the wishful official forecasts. Less industrial output, less employment, less exports—the drop in tax revenue is no mystery. Moreover, the unabated fall of the artificial new single European Union currency, the euro, has dashed hopes for currency gains against the dollar, so that the Bundesbank, the central bank, which carries out a lot of currency trading operations, will be unable to transfer as much (10 billion marks or more) to the government budget, as in previous years.

Like the former government, the present one consists of politicians who adhere to the myth of budget balancing. Instead of thinking about ways to increase production and the tax base, they think about closing the budget gap with budget cuts. This is like saving an apple by eating it—a very convincing policy.

The government's first step was to announce cuts in the labor and pension budgets, and the second round of ecology-related tax increases. Burdened with the cost of the useless air war in the Balkans, and already shouldering the impact of earlier budget-cutting rounds, the Defense Ministry's fiscal year 1999 budget is already under strain. So, social programs are the primary targets for cuts.

In the second week in June, Labor Minister Walter Riester announced his intent to index pension increases for the next two years to the inflation rate. To date, increases have been indexed to average net income increases, which have been slightly above the inflation rate. A re-indexing to inflation means a net cut in pensions. For retired citizens in the lower income brackets, the loss of 20 or 30 marks per month is a lot, given the mandatory private share in paying for health costs, medicine, and so on, which was introduced several years ago with the first round of health care "reform."

Riester also made public his intent to introduce a mandatory private pension fund scheme, under which by the year 2007, citizens would be required to pay 2.5% of their net income into a private fund. That fund would no longer operate like the traditional state-backed public pension fund, with a guaranteed pension payment, but would speculate in the markets, for "gains" (or, losses).

Riester's proposals sparked a public outcry, and many retirees, who make up a large bloc of voters, voted against the government and for the Christian Democratic opposition in the June 13 European Parliament elections. This threw the government into an even greater panic, so it withdrew the plan for the private pension fund, but only to propose cuts in government subsidies to unemployment funds and health care funds for long-term unemployed.

The government also enraged the labor unions, because if the unemployment administration and the health insurance agencies no longer receive government funding, they will be forced to either cut their own budgets, or (in the case of the insurance agencies) to make up for the losses by increasing members' health fees.

The German cabinet on June 22 not only okayed budget cuts over the next four years of 150 billion marks (the biggest such package of cuts ever in postwar Germany), but also okayed consumer tax increases that will hit hardest the lower-income categories of the population: an annual increase of the gasoline tax by 6 pfennigs, and an annual increase of electricity prices of 0.5%, over the next three to four years. This is certain to increase monthly household bills by 50-100 marks, or even more.

Since 7.8 billion of the 30 billion marks which the government wants to collect to fill the budget hole for FY 2000 will be taken from the Ministry of Labor's budget, there will be no money left to keep the special job-creation program alive, which in previous years has employed several hundred thousand jobless for at least 6-12 months. This program, which has "improved" official jobless statistics, will not be available this time, so unemployment figures will increase under this government's budget-balancing policy.

The latest opinion poll, published on June 18 by the Dimap institute, gave Chancellor Gerhard Schröder's Social Democrats a miserable 33%, and their Green coalition partner 7%. The Christian Democratic opposition received 46%. Had there been national elections, this government would have been voted out—roughly eight months after it took power.