 by Rainer Apel

Coalition Is Clueless on Economics

Within the straitjacket of the Maastricht system, the new Berlin government has no options for economic recovery.

The three parties that will form the new Grand Coalition government of Germany—the Christian Democratic Union (CDU), Christian Social Union (CSU), and Social Democratic Party (SPD)—have negotiated a coalition agreement that amounts to a smorgasbord of some 50 "investment" measures that will do nothing to shore up a sinking economy. On the one hand, the parties realized that more drastic budget cuts would be lethal, so that some money had to be invested first. But this was presented as "propping the patient up, before the surgery," which is to say that the drastic cuts are to be made later. On the other hand, the new government stated its loyalty to the European Union's Maastricht rules for a balanced budget, which it wants to meet in 2007. In 2006, however, a budget gap of 60 billion euros will violate the Maastricht rules, which specify that government debt may not exceed 3% of GDP.

In fact, more than half of the 15 western members of the European Union currently do not meet this criterion, not to mention the new eastern European members, which are not yet formally obliged to do so.

The coalition's "compromise" is an "investment program" in the range of 25 billion euros for the coming four years, but this will mostly be minuscule funds for tax rebates for smaller firms, for families, and only to a minor extent for direct productive investments—for example, a bit more than 1 billion euros per year for transport infrastructure.

An expert at the Berlin-based German Institute of Economic Research (DIW) told this author on Nov. 11, that the program would only have "marginal effects" on unemployment. The 6 billion euros provided per year, simply are not enough. The investments in the transportation infrastructure sector, which involves the construction sector, are useful, but not enough to alter the unemployment situation as a whole.

The straitjacket which prevents the government from acting efficiently, is the Maastricht rules, which ban large state-run job creation programs, the DIW expert said. But to think beyond the Maastricht system, was something beyond the conceptual capacities of the leading politicians. In order to do what the last Grand Coalition did, shortly after its formation in December 1966—namely, launching investment programs—the new government would need several large projects in transport and other public infrastructure, as well as the municipal and home-building sectors, welfare, and health care. Only that could help to reduce unemployment significantly.

Highway, waterway, and railway projects from Germany to eastern Europe would help, the expert said. A lot could be done with Poland and Ukraine, and transport projects there would also get co-funding from the European Union. The ideal starter project, however, the maglev line between Hamburg and Berlin, was dumped in January 1999. For the time being, politicians seem content with the small maglev route that is to be built between Munich and its international airport, some 30 kilometers away.

The absurdity of the new government's stated loyalty to Maastricht, is exposed by the intense debate in Italy and France, about the European Union's (EU) budgeting rules. The youth riots in France, and the beginning of the parliamentary election campaign in Italy, have triggered a new round of political attacks on the Maastricht system. In fact, Germany will simply not be able to meet the Maastricht criteria—not in 2006, not in 2007, nor in any other year. An open clash with the Maastricht watchdogs is certain in 2006.

The problem here is that establishment politicians have no clear idea how to act, if the Maastricht system falls apart after the larger EU member governments no longer pay any attention to its rules. The LaRouche movement in Germany, France, and Italy has campaigned for the past several months for a return to the national currencies that were abandoned in 2002, when the euro was turned into the currency for Europe. A return to the national currencies, which in Germany would be the deutschemark, would allow a reorientation of fiscal and investment policies of the respective national governments, to suit the actual needs of their national economies. That would go along with the restoration of the national central banks, now sub-divisions only of the European Central Bank, as banks for investment in projects of productive industries and of public infrastructure.

This idea is echoed in a call by the German metal workers union, for a renegotiation of the Maastricht rules, so that a national investment program of 40 billion euros annually could be launched. The metal workers, Germany's largest labor union, have some influence on the Social Democrats, so this may help to convince the Grand Coalition to rethink its policy.