Germany: Social Democratic government proposes massive tax breaks for big business

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Sweeping tax changes proposed in December by the Social Democratic Party (SPD)-led government in Germany go far beyond the measures previously announced and herald a fundamental change in the country's economic and social relations.

Chancellor Gerhard Schröder on December 21 presented a plan to slash income taxes by 73 billion German marks (US$38 billion) over the next five years, with sharp reductions in the tax rate for the richest Germans as well as for corporations. The plan also envisions an income tax rate reduction for low income workers.

Germany's financial and corporate elite were even more pleased—indeed, a general euphoria sent share values soaring in Frankfurt—when they learned late on December 22 that the SPD tax plan included a repeal of the existing 50 percent capital gains tax on the sale of industrial holdings by banks, insurance firms and other companies. This measure, a huge tax windfall for Germany's financial trusts, will fuel an unprecedented round of corporate mergers and lead to profound changes in the structure of German capitalism. It will intensify the corporate drive to eliminate jobs, cut costs and increase labour productivity. The fall in tax revenues will, moreover, be used to justify further attacks on social welfare programs.

The tax “reform” package presented December 21 went substantially beyond the measures that had previously been discussed by Treasury officials and SPD committees. Under the new plan, the entry-level tax rate for low income earners is to fall from 23.9 to 15 percent, while the highest tax rate for top earners is to be cut from 53 percent at present to 45 percent.

According to Finance Minister Hans Eichel, the most important prerequisite for carrying out the tax cuts is that "we guarantee the greatest discipline over spending". The avowed aim of the Treasury is to reduce new debt from the present 50 billion German marks to zero by the year 2006.

The unemployed and those dependent on social security benefits will suffer the most immediate impact of the budget- and tax-cutting program. The states and municipalities will have to replace 15 of the 27 billion marks in federal spending reductions in the first stage of the reforms, to be completed in 2001. Financially weak states—like the city-state of Bremen, the Saarland and Schleswig-Holstein—will feel the pressure first.

Despite the devastating social implications of the SPD tax proposals, they provoked little public opposition. The prime ministers of the financially strong states such as Bavaria (governed by the Christian Social Union—CSU) and North Rhine-Westphalia (governed by the SPD) spoke in favour of the plans and demanded even more radical measures. Bremen's Finance Senator Hartmut Perschau (Christian Democratic Union—CDU) declared the “reform” a step in the right direction and, together with Bavaria's Minister of Finance Kurt Faltlhauser (CSU), called for an even greater unburdening of business and a further lowering of the highest tax rate to 35 percent.

Following the budget reductions of last spring, the tax cuts constitute the second step toward an economy modelled on the US and Britain, where almost all barriers to business have been eliminated and welfare-state programs have been largely gutted.

The truly explosive nature of the tax plan only became known when officials at major banks and insurance firms downloaded the full text of the government's proposal from the Internet late Wednesday, December 22 and discovered the clauses dealing with the capital gains tax. The SPD-Green coalition government had not mentioned the capital

gains tax repeal when it unveiled its tax-cut package the previous day.

The capital gains windfall is of immense significance for German business. Its success after the Second World War rested on the close relations established between the banks, insurance companies, industrial firms, trade unions and political parties, summed up in the phrase “Germany Inc.”

Large insurance companies like Allianz and Müncher Rückversicherung and major banks such as Deutsche Bank have considerable shareholdings in the large industrial enterprises of the country, estimated to total $150 billion. Deutsche Bank, the largest bank in Europe and one of the pillars of this system, has shareholdings valued at $22 billion, including a 12 percent share of DaimlerChrysler and a 7 percent share of Allianz.

Allianz, for its part, holds shares to the value of $30 billion, including big holdings in Dresdner Bank and the Bavarian HypoVereinsbank. Altogether, Allianz holds shares in 17 of the 30 largest German enterprises.

In the past, these close relations enabled Germany's ruling elite to regulate economic and social problems, limit competition to an acceptable degree and keep foreign competition at bay. Under conditions of globalisation, however, the large financial concerns increasingly came to regard the very permanence of this structure—enforced by the high tax penalty for divestment of cross-company holdings—as a straightjacket. It hindered them from moving their capital into more lucrative areas and participating fully in the wave of mergers and acquisitions that has begun to sweep Europe.

Where this led was seen in the recent experience of Deutsche Bank with the Holzmann construction company, in which it held a 15 percent share. Under massive pressure from the public and the government, it was forced into a scheme to restructure the company.

Johannes Reich, head of the share research department at the Metzler Bank in Frankfurt, said that the tax proposal could increase the profits of the largest banks and insurance companies by 10 to 20 percent. "That really would be a revolution," he declared.

The news weekly *Der Spiegel* spoke of the "beginning of the end for Germany Inc.”, saying it would now be "divided up into its individual parts and sorted out again".

The German stock exchange, hardly known for euphoria, had a record one-day rise on hearing the news of the capital gains tax repeal. The German share index (DAX) rose by 4.5 percent on Thursday, December 23.

Shares of Müncher Rückversicherung, one of the largest insurance companies in the world, rose by over 20 percent. Allianz shares soared 15 percent and those of Deutsche Bank went up almost 14 percent.

Whereas last year's austerity budget led to open dissent within the SPD, only a few isolated protests were heard against Schröder's massive tax break for the corporations, which has even more far-reaching consequences for the living conditions of working people. Since the SPD congress in December, where the delegates closed ranks behind Schröder and his finance minister, Hans Eichel, it has become clear that no resistance to a policy directed against the interests of the broad mass of the population can be expected from this party.