Germany: Schroeder government pushes through tax reforms to benefit big business

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Last week, the upper house of the German parliament gave final approval to a series of tax reforms largely benefiting big business. The Social Democratic Party (SPD) and Green party coalition government celebrated this as a victory over the Christian Democratic Union-Christian Social Union (CDU/CSU) opposition, which lost the vote when some of their own members defected to the government camp.

At the heart of the measures lies a massive tax give-away for business and those with higher incomes. The corporate tax is to fall from 40 to 25 percent, while the maximum tax for personal income will decline from 51 to 42 percent. The facet of the tax package that evoked the most enthusiastic response in company boardrooms was the abolition of all taxes on the sale of assets, previously set at 53 percent. This opens the way for massive restructuring by large corporations and the elimination of thousands of jobs. Lower-income earners and those with middle incomes are to receive some relief, but to a far smaller extent than corporations and wealthy individuals.

Never before have leading corporate representatives lent their support to a government so openly and intensively, and the wholehearted support of big business is especially noteworthy since the government is led by the social democrats in coalition with the Greens, parties which in the past claimed to speak for the working class and middle-class layers. Leading business representatives advertised their support for the tax reforms in the editorial pages of publications like *Der Spiegel* and the *Berliner Zeitung*.

Under the headline “Bosses for Red-Green Coalition”, the *Berliner Zeitung* quoted Manfred Schneider, head of the Bayer chemical conglomerate, saying, “We need the tax reforms now, otherwise the positive economic dynamic will weaken again.” Helmut Perlet, board member of the massive Allianz insurance company, stressed that the tax burden for business must continue to decline: “We welcome this tax reform. To flog it to death, or even prevent it, in the name of a theoretically interesting discussion of little practical relevance would be irresponsible.”

The head of IBM in Germany, Erwin Staudt, also demanded rapid tax cuts. According to Staudt, the general direction of the Red-Green reforms was “unarguably correct, and we need the reforms now”. The *Berliner Zeitung* wrote: “The heads of Bertelsmann, DaimlerChrysler, Deutsche Bank, Porsche and RWE have already publicly called for the passage of the Red-Green tax reforms.”

A recent edition of the influential weekly *Die Zeit* quoted Olaf Henkel, head of the Federal Association of German Industry, saying, “I held intensive discussions with the government and opposition as never before. I thought I was almost an unofficial arbitrator.”

The new measures, which became law with the vote in the *Bundesrat*, or upper chamber, passed by 41 to 28. State governments run by the SPD control only 26 votes, while those run by the CDU/CSU control 28 votes. The rest is divided between coalitions of the SPD with either the CDU, the Free Democrats (FDP) or the Party of Democratic Socialism (PDS).

Although the coalition agreements in these latter states expressly declare that where a difference of opinion exists between the partners, the state will abstain from voting in the *Bundesrat*, all the coalitions voted for the proposals of the federal government. Only the six states ruled by the Christian Democrats voted against.

After the vote, the champagne corks could be heard popping in the government camp. The SPD celebrated its victory over the opposition, which could not have been more decisive. Although both government and opposition largely agreed on the factual questions of the tax reforms and limited their disagreements to the details, the new duo at the top of the CDU—Angela Merkel (party chair) and Friedrich Merz (parliamentary faction chair)—made the issue one of their leadership.

On the eve of the vote, Merkel declared on television, “The resistance front stands ready!” However, when it came to swearing the oath, there was no front to stand ready. One after another, the CDU politicians in the state coalition governments did an about-face. At the end of the vote in the upper chamber, which met for the last time in Bonn, there were tumultuous scenes. Bavaria's Christian Social Union (CSU) Prime Minister Edmund Stoiber, one of the chief agitators in the rejectionist camp, accused the federal government of “buying votes”, implying that his Christian Democratic colleagues were for sale. The head of government in Thuringia, Bernhard Vogel (CDU), declared he had never before experienced “such abuse of a constitutional organ”.

Chancellor Schroeder and his finance minister, Hans Eichel, had indeed spent the previous days in intensive personal discussions with the SPD's coalition partners in the various state governments, making them an “offer they could not refuse”. Apart from meeting with CDU and FDP representatives, the SPD for the first time held discussions with the PDS.

Schroeder and Eichel not only acceded to CDU demands to lessen the tax burden on small and medium-sized businesses, they also agreed to a further cut in top tax rates, reducing them from 51 to 42 percent, rather than 43 percent as originally planned. They also promised financial aid that had nothing to do with the immediate issue of tax reforms. Thus Brandenburg is to receive additional federal money to finance its road building and repair programme, Berlin is to get extra help in renovating its old buildings, and Bremen is to receive support to balance its budget. A new formula covering the payment of federal monies to the states was also agreed.

The CDU leadership, which hoped it had finally emerged from the crisis precipitated by a scandal involving illegal party donations, was thrown into further disarray by the vote in the Bundesrat. It is open to question whether the new Merkel-Merz leadership will survive. Publicly disdained and pushed into a corner for weeks by ex-chancellor Helmut Kohl, who is at the centre of the CDU finance scandal, the party leaders in those states with coalition governments are abandoning the official party leadership.

The SPD-Green federal government, which one year ago was severely shaken by its own crisis, now finds itself in an extraordinarily strong position in the middle of its term of office. A serious challenge from the Christian Democrats is not to be expected for the foreseeable future. Schroeder also possesses one other trump card. Although formally part of the opposition, the FDP is acting increasingly like part of the government camp. If he ever faces problems with the Greens, Schroeder now has a likely alternative coalition partner. With their support for the tax reforms, moreover, the PDS has made it clear that no serious opposition is to be expected from them either.

But the apparent strength of the SPD/Green federal government is deceptive. While as a political manoeuvre passage of the tax reforms was a complete success, it has distanced the government even further from ordinary people. The impotence of the Christian Democrats, and conversely the success of the government, rests on the simple fact that Schroeder, Foreign Minister Fischer (Greens), Eichel and company have adopted the previous policies of the Christian Democrats and pushed them even further in the direction of the employers, above all the big banks and corporations.

Finance Minister Eichel made clear that the tax reforms are intended to benefit the employers in a speech to the Bundesrat. Words such as “social balance” and “fairness” were not invoked. It was left to CSU leader Edmund Stoiber to call the government measures “socially unbalanced” and “hostile to small and medium-sized business”. Stoiber's affinity to the right-wing demagogy of Austrian Freedom Party leader Joerg Haider is well known.