Germany: Increasing instability of the Gerhard Schröder government

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The German government has reacted tensely to recent economic forecasts indicating a downturn in German economic growth. With more than a year to go before the next general election, nerves are strained in the cabinet and chancellor's office. The first signs of an economic recession are revealing the extent of the weakness and instability of the Schröder government (SPD—Social Democratic Party).

Once again, an economic research institute has corrected its economic prognosis downward. Economic growth in Germany and in the European Union (EU) is becoming clearly weaker, according to the German Institute for Economic Research (DIW), which indicates that growth this year is only expected to be one percentage point. In March, the same institute was expecting the German economy to grow by 2.1 percent.

The *Süddeutsche Zeitung* spoke of the "worst economic situation since the recession of 1993" and quoted DWI expert Gustav-Adolf Horn saying: "Stagnation is no longer far away." The International Monetary Fund has also lowered its prognosis for Germany from 1.9 percent to 1.25 percent.

Finance Minister Hans Eichel (SPD) and Economics Minister Werner Mueller (non-party) immediately refuted these prognoses. Both ministers are counting on further growth of 2 percent, with a clear economic recovery in the second half of the year.

The new economic statistics have rekindled the controversy regarding the rigid austerity policies of the SPD-Green Party coalition government. The director of the Federal Association of German Industry (BDI), Ludolf von Wartenberg, accused Finance Minister Eichel (SPD) of consolidating state finances at the expense of investment in business. "There is too much for consumption and too little for investment," von Wartenberg stressed. In an effort to avoid further weakening economic development, the DIW is also asking the finance minister not to try and recoup tax losses resulting from the recession (estimated at 4.5 billion marks) through new austerity measures.

The government's austerity policies have been criticised by welfare organisations, which have pointed to the devastating effects of the cuts in social spending. The fact that business associations are now also criticising the government has intensified tensions in the "Red-Green" coalition, which feels the pressure from all sides. The government's own target of reducing mass unemployment has been shifted further into the future. In June, the numbers of unemployed rose again, if only slightly. This is the sixth month to record an increase in unemployment.

The government's weakness has deep social roots. Above all, it reveals that the SPD-Green coalition has long since exhausted the initial goodwill it enjoyed in the population and its social basis is constantly diminishing.

Schröder's electoral victory barely three years ago rested on two factors. First, there was widespread opposition to the government of Helmut Kohl (CDU—Christian Democratic Union). At the time, after 16 years of the Kohl government, many voters felt things could only get better. They regarded the election of the SPD as the only way to get rid of the Kohl government and its persistent attacks on social spending.

Second, the larger business associations supported the SPD's election campaign, albeit for different reasons. The years of so-called "clientele" politics and the attempt to appease different political lobbies under Kohl had exhausted the CDU, and large sections of business hoped that an SPD-led government would be better able to push through harsh cuts in social spending and knock Germany into shape for globalisation. The SPD's election slogan—"innovation and justice"—was directed at both sides.

The election itself resembled a plebiscite on Kohl. To its own surprise, the SPD increased its vote in predominantly working class areas of the industrial cities, and gained even more in the East of the country than in the West. Under these conditions, forming a grand coalition between the SPD and CDU, as Schröder had desired, was not possible.

Initially the new government saw itself forced to take its working class voters into account. But then Germany's influential business associations increased their pressure on the government and Schröder proved he was willing to meet their every wish. The SPD's rhetoric about social justice had only been employed to win the election. After the SPD was in power, there was no longer any need for it. This was the reason why Schröder came to part company with his first finance minister, Oskar Lafontaine. Lafontaine feared that the government's neo-liberal economic course would exhaust the SPD too rapidly. Having no alternative to these policies, however, he resigned.

Lafontaine's replacement by Hans Eichel placed a finance policy technocrat in the Treasury, a man only interested in bookkeeping with no regard for the social consequences of his economic cuts. Only a few weeks before he was appointed finance minister, his antisocial austerity policies lost him the state elections in Hesse. His principle of budget consolidation at any price became the basis for a sharp rightward turn by the Schröder government.

The first Red-Green savings measures continued and intensified the redistribution of social wealth from the bottom upwards, just as the Kohl government had done for years. Out of some 30 billion marks in cuts, 13 billion fell directly on social spending. The pension contributions of unemployment benefit recipients were halved, and the pension increase in 2000 was limited to 0.7 percent.

The federal government stopped its payments for rent subsidies to people on social security, valued at 2.3 billion marks, and shifted responsibility for making these payments onto the already burdened municipal and state governments, necessitating social cuts at a local level. At the same time, cuts in public housing construction saved 70 million marks. The introduction of the "ecology tax" led to drastic petrol and heating oil price increases for ordinary consumers, while the majority of factories, with higher energy consumption and causing greater environmental pollution, were exempted from the tax.

There then followed the so-called "large-scale tax reforms", which centred upon a drastic lowering of business taxes. Above all, taxes on profits—whether from general business profits, dividends or speculation—were reduced to an extent previously regarded as inconceivable. Corporate taxes were almost halved, from 40 percent to 25

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percent.

With the highest tax rate on retained earnings of 56 percent, Germany had stood at the upper end of the international taxation tables, rates nearly 10 percent higher than in the United States. Chancellor Schröder and his accountant Hans Eichel reduced top tax rates to 38.6 percent, the fourth-lowest in Europe and well below the 46.5 percent US rate. It was also decided to lower tax rates on private incomes gradually by around 10 percent, which would bring annual tax savings of about 100,000 marks for someone with an income of 1 million marks.

Since the beginning of the 1980s, the spokesmen of the big business associations had called for policies along the lines of Reagan and Thatcher, but the Kohl government had proved unable to implement these changes in the interest of the large corporations and banks. In opposition, the SPD had blocked the tax reforms of Theo Waigel for tactical electoral reasons. The ruling elite concluded that the SPD and the Greens had to be brought into government, in order to overcome resistance to tax reforms.

This antisocial policy met with violent popular opposition. In the 1999 elections in Hesse and in the Saarland, the SPD lost its majorities in the state legislatures and was forced into opposition. Last spring it suffered big losses in North Rhine-Westphalia. This trend did not continue in other state elections, due to the growing scandal over CDU illegal party donations, but election turnout has continued to decline. The vehemence with which the SPD acted as the representative of the interests of the business associations in its first years in government, pushing through deeper cuts in social spending than its predecessor, has clearly widened the gap between it and the population.

Schröder has reacted to this development by trying to tack between the different social layers and political tendencies. On the one hand, he is holding firmly to an economic policy directed at opening up the special forms of the German welfare state to the global markets. Regarding pensions and health care, the course is already set clearly towards privatisation and a two-class medical system. On the other hand, he inveighs against so-called "American conditions" and relies on the trade union bureaucracy in order to push through flexible working conditions in such a way that social conflicts can be held in check.

So far, he has been helped by favourable economic conditions. But the clear signs of a recession herald an end to this development. Thus lurking at the back of the tense reactions to recent economic prognoses is an increasing fear of social conflict.

Although at present the government has nothing to fear from the largest opposition party, because the Christian Democrats are deeply divided, Schröder is looking for new support and political allies. Social and political problems are intensifying, particularly in Germany's eastern states where the official unemployment rate is nearly 20 percent, twice as high as in the West. In East Germany's former industrial centres one of every two young persons is unemployed and lacks any prospects for improvement or a worthwhile future.

Since the SPD came to power nationally, its influence in the East has continued to decrease, while the Greens have fared even worse. The party of Foreign Minister and Vice Chancellor Joschka Fischer is not represented in a single state legislature in eastern Germany, and it would not be surprising if it failed to clear the 5 percent hurdle in next year's general election, losing all its seats in the *Bundestag* (federal parliament).

This is the reason for Schröder's friendly moves towards the Party of Democratic Socialism (PDS). The former government party of the German Democratic Republic (GDR—former East Germany) is the only political organisation today that still has a developed party structure in the East. The PDS was able to establish a base for itself among disillusioned layers of the GDR petty bourgeoisie, whose dreams of a career after the fall of the Berlin Wall were only partially fulfilled, if at all.

The candidacy of PDS leader Gregor Gysi in Berlin's city-state senatorial elections this coming autumn, and the announcement that the SPD could form a coalition with the PDS in city hall "under certain circumstances," serve as a test and preparation for closer cooperation between the two parties at a federal level if necessary.

Those who claimed this development represented a shift to the left by the SPD have already been taught a instructive lesson. In fact the rapprochement of the two parties has less to do with the SPD moving to the left, and much more with the shift to the right by the PDS. The party, which still calls itself socialist, has more than 12,000 mayors and local government officials in the East, and has been a major prop for the system for some time.

In the eastern state of Saxon-Anhalt, the PDS has supported a social-democratic minority government for the last eight years, which has done nothing to alter the fact that unemployment in the state is the highest in Germany. In Mecklenburg-Pomerania it is already part of the government, and the PDS employment minister in the state capital Schwerin has made the headlines, above all because he is seeking to privatise hospitals and local facilities faster than in any other state.

Two characteristics mark the third year of the Red-Green government. First, the political elite is distancing itself from the population ever more rapidly. A small circle of experts completely cut off from social developments makes political decisions which are then carried out. Increasingly the political parties in Germany grow to resemble each other and the interests of the vast majority of the population are increasingly excluded and blocked.

Second, official politics is moving ever further to the right. Together with political decisions directed against the majority of the population comes an intensified attack on democratic rights. The call for a strong state has a long tradition in Germany and is always raised at the first signs of an economic crisis. In this regard, Schröder's demand made at the beginning of the summer break for harsher punishments for those who commit sex crimes is very informative. Together with Interior Minister Otto Schily (SPD) he is trying to steal the clothes of the right-wing Christian Democrats, by making questions of domestic security and increased powers an issue.

The dangers connected with this policy can be seen by the developments in Austria, or in the recent election victory of Silvio Berlusconi in Italy. In both countries, social-democratic governments created social and political conditions where extreme right-wing demagogues were able to utilise the despair and political disillusionment of impoverished social layers for their own ends with the social democrats' "law-and-order" slogans opening the way for them.

To prevent such a development requires a political initiative from below. It is not enough to simply withdraw from official politics and abstain in elections. The workers movement, paralysed by the decades of domination by social democracy and Stalinism, must be rearmed politically.

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