Merkel coalition agreement

A program of social devastation in Germany

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For the last four weeks, Germany's conservative parties—the CDU (Christian Democratic Union), CSU (Christian Social Union) and the FDP (Free Democratic Party)—have been negotiating coalition conditions in order to form the new federal government. While all those involved agree on a right-wing program, they have been disputing how best to implement it without provoking a social explosion.

Media coverage of the process has been completely misleading. The negotiations have not been about whether the country's business community and the wealthy are to be relieved of paying taxes and the resulting costs passed on to the population. On that matter, all those involved are in agreement. This is confirmed by both the speed with which agreements were reached and the views of all participants in relation to controversial issues.

The new government under Angela Merkel (CDU) had planned to settle the government's program last weekend. But, as is often the case in such negotiations, the devil is in the detail. The wording of the coalition agreement was kept quite general and ornamented with numerous socially desirable decorations. Fixed procedures for executing the most devastating social cuts were devised, but these will only be implemented in one to two years, but then "imperatively" and "without alternative"— i.e., with full force.

The parties involved have thus negotiated an annual tax reduction of €20 to €25 billion, primarily benefiting the rich and corporate business. During the election campaign, the FDP had demanded a reduction of €35 billion and the Union (CDU and CSU) €15 billion. In this way, the FDP want to reduce the top rate of tax from the current 42 percent to 35 percent. In 1998, before Gerhard Schröder (SPD—Social Democratic Party) became head of government, it was set at 53 percent.

Corporations are also to be relieved of any tax burden. According to the draft coalition treaty, a tax reform for businesses will be implemented from the beginning of next year. One of the steps towards this has already been announced—the abolition of the so-called "shell (or front) company provision" that was introduced only last year. This prevented investors from buying up worthless joint-stock companies in order to use their accumulated deficits as a means of mitigating taxation.

On the other hand, state-owned municipal enterprises providing basic services for the public are to be taxed just as much as private companies. As a consequence of this "level playing field of competition," exemption from value added tax, normally allowed to public sewerage and waste management businesses, will be repealed.

The national budget will therefore grow by several million euros at the expense of tenants, who will pay for it all through increased service charges. "Tenants are threatened with having to pay up to €150 more for operating costs each year," said Franz-Georg Rips, president of the German Tenants's Alliance (DMB). He claimed that, "Water, sewage, garbage disposal and street cleaning would become 19 percent more expensive."

Drastic remedy for health insurance

The new government intends exploiting social expenditure as its most important means of redistributing social wealth. Employers will be relieved of responsibility in this area, while the legally insured will pay more. The black-yellow (CDU/FDP) coalition is planning a radical cure for the health insurance crisis. It is canceling once and for all the principle of employers and employees each bearing half the cost of insurance contributions, and preparing the way for a two-class system of medical provision.

As explained in Berlin a week ago by the chief health insurance negotiators—Ursula von der Leyen (CDU), Philip Rösler (FDP) and Barbara Stamm (CSU)—the health insurance system, introduced only at the beginning of this year, will again be dismantled and replaced by one resembling the so-called "per capita premium" plan advocated by the FDP and business circles.

Details of the new system, expected to operate from 2011, are yet to be worked out by a government committee, but the fundamentals are clear. Firstly, the employer's contribution to medical insurance is to be frozen and all future increases borne exclusively by the insured. Secondly, the employee's contribution will be calculated "irrespective of income," i.e., everyone will pay the same premium, irrespective of whether he or she earns a lot or a little. Compensation in the form of tax relief will only be given to those receiving extremely low incomes. And thirdly, the health insurance companies are to be allowed more freedom to regulate the contributions they demand. Workers on low and average incomes will be saddled with horrendous medical insurance costs, for which they will receive only minimal provision, while company contributions will be alleviated and the well-off will be able to afford superior coverage.

The coalition partners also propose further charges for nursing insurance for the elderly, already largely financed by employees. As well as the normal legally required insurance that is independent of income level and operates according to means testing, employees and pensioners will be legally obliged to pay flat-rate contributions into a separately funded insurance pool.

Originally the coalition partners planned to cover the heavy deficits, arising from the economic crisis in medical insurance provision and the ministry of labour (BA), with €20 billion from the state coffers and hive them off in a parallel (shadow) budget. This move was to be attributed to the former government and the sum involved would not have appeared in the official budget. Leeway for tax reduction thus arose, without anyone being seen to disregard the "brake on indebtedness," introduced by the last government.

A storm of indignation against this shadow budget arose in business circles, supported by the SPD and the Greens. The coalition parties withdrew—at least for this year—their plans for a parallel budget and agreed to make a radical reform of medical provision. They have not yet revealed

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how the expected deficit for the coming year is to be covered.

However, holes in the budget due to the planned tax reductions and deficits in welfare funding will lead to further drastic cuts in expenditure, at least from 2011. Then the debt brake, firmly embedded in the German constitution by the SPD and CDU/CSU, will come into force. This stipulates that the federal government may only draw new credit to the extent of 0.35 percent of the gross domestic product from 2016. Currently that means just on €9 billion. Nevertheless, the new government calculates the new debt for 2010 will reach €76 billion.

Deceptive packaging

Right at the beginning of the coalition negotiations, the CDU/CSU agreed on a number of social concessions, which on closer inspection proved to be a deceptive packaging of their program. Favours doled out to the business world were described as "social" initiatives. Thus an increase in the maximum assets allowed for Hartz IV claimants (recipients of the lowest-level welfare payments) turned out to be a way of assisting the insurance companies.

Until now, Hartz IV recipients have been able to retain €250 of their life savings for each year of their age. All savings over this amount were deducted from their Hartz IV payments. Now they will be able to keep three times as much, if it is invested in insurance for retirement provision. A 50-year-old, long-term unemployed person can therefore now put aside €37,500 instead of €12,500 for his old age.

In fact only 11,000 of the 5.5 million long-term unemployed will benefit from this new regulation. Most long-term unemployed have never had the chance to save so much or have long since been forced—on account of their paltry welfare entitlements—to draw on their savings for old age and to use them just to survive.

But insurance firms will be well pleased with the plan. Now they will have a strong selling point, when confronting those who have so far refused to take out old age insurance, owing to their precarious condition of being continually threatened with unemployment.

This "social gesture" will also place hardly any strain on the budget. Since interest on the savings will be taxed as income and deducted from the Hartz IV welfare payments, the whole ploy amounts to a zero-sum game. The money lost through the three-fold raising of the assets limit will be recouped with the confiscated interest earned on the invested savings.

Other agreements are characterised by the same sleight of hand. Thus the CDU and FDP are keen to introduce a system of scholarships for the "most gifted" tertiary students. In the German education system, however, children from the richest households are also usually considered the most talented, since children from poorer backgrounds are disadvantaged from the very start of their lives. The plan involves awarding students €300 a month, irrespective of their parents' income, and obtaining half the cost of the project from private firms.

The operational life-time of nuclear power stations is to be extended. This constitutes the first step towards rejecting the policy of nuclear power phase-out, adopted by the SPD/Green coalition under Gerhard Schröder. Energy-providing companies stand to reap millions in profit from this move. Specific limits on times for the continued operation of nuclear power stations will not be part of the coalition treaty.

The FDP has been unable to push through its demand for the abolition of legislation protecting employees against dismissal, because Chancellor Merkel was reluctant to sully her good relations with the trade unions, whose support she depends on during confrontations with workers.

As compensation, the FDP has secured for itself a right of veto in relation to the introduction of a minimum wage law. The coalition treaty states, "Declarations about wage agreements, binding for all members of the government, will be regulated conjointly in cabinet." Until now, the minister for labour could—having observed certain preconditions—exercise his or her own responsibility to declare a minimum wage generally binding, in cases where parties to a wage agreement in a particular industrial branch applied for this course to be taken.

The coalition parties agreed on a ban on immoral wages of less than a third of a branch average. But by inverting the argument, they affirm that it is not immoral for wages to lie up to a third under the average. With respect to contracts on low wages ranging from three to six euros per hour, this constitutes a charter to pay starvation wages.

Domestic politics

On the domestic front, the CDU/CSU and FDP are intensifying their attacks on democratic rights and preparing for confrontation with the population.

"Integration contracts" for foreigners are to be introduced. All migrants, including those who have lived in Germany for a long time, will be obliged to attend "integration and language courses." The reference in the draft proposal to the "integration contracts" being continually checked in the future indicates that the system will be used to enforce sanctions, if migrants reject these measures.

Particularly characteristic is the cave-in by the FDP, the self-proclaimed "citizens' rights party," when confronted with measures that allow for the whole population to be placed under general suspicion, for their right to confidentiality to be ignored and for them to be spied on.

With respect to the controversial blocking of Internet access to child pornography Web sites, the negotiation partners thus agreed that the Federal Criminal Investigation Agency (BKA) should be able to close the conspicuous sites instead of blocking them with a warning message. This officially seals the introduction of Internet censorship.

Covert surveillance of computers while on line is also strongly supported in the coalition agreement. Permission to carry out such spying will have to be sought via the chief federal prosecutor from a judge in the Federal Supreme Court. Until now, the BKA itself has been able to contact the district court in Wiesbaden to make the application. But the fact that spying is allowed to take place without concrete evidence for suspicion remains unchallenged.

Retention of data—telephone and Internet connection data is kept for six months—will also remain legal. According to the coalition treaty, the use of data will supposedly be restricted to that involved in extremely dangerous situations. Nevertheless, data will be accessed from everyone in the country, and without the requirement of any specific reason for suspicion. The law enforcement agencies will be left to decide how they define "extremely dangerous situations."

The FDP's main negotiator concerning these issues of "internal security" is Sabine Leutheusser-Schnarrenberger. In 1995, she was minister of justice under Chancellor Helmut Kohl (CDU) and resigned her post after the introduction of a major electronic eavesdropping policy, involving audio and video surveillance of private residences. Since then, she has been presented as the FDP's leading advocate of liberalism in the personal sphere, as a counterweight to the party's economic liberalism. Now she is again being groomed to become the next minister of justice and has already agreed to measures that make the major electronic eavesdropping operation seem insignificant.

Leutheusser-Schnarrenberger has also associated herself with the law-and-order politics of Wolfgang Schäuble (CDU) in other areas. Schäuble

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once headed the ministry of the interior for four years and is now considered likely to lead the finance ministry. Hence, criminal law relating to juvenile offenders will be toughened up. As well as being able to order so-called “warning shot arrests authorities will also be empowered to issue parole sentences. In such cases, young people will be put behind bars for up to four weeks. The maximum penalty for juvenile crimes will also be increased from 10 to 15 years incarceration.

Little has so far been made public about the coalition’s foreign and military policy. Apparently, no one wants to upset Germany’s international allies. The FDP clearly intends taking a more aggressive course in the defence of German interests. Until now, the CDU has rejected the FDP’s demand for the dismantling of military conscription and the establishment of a professional army. Instead, conscription service is to be reduced from nine to six months—an initial step towards its complete abolition. There is also still no agreement about the FDP’s demand for the withdrawal of US nuclear weapons from Germany.

An agreement, so far receiving little attention or comment, indicates that the German army will be expected to play a greater role at home and abroad. In future, the criminal prosecution authority and court in Potsdam will be responsible for cases involving the prosecution of German soldiers serving in foreign countries. Potsdam is the headquarters of the army command that steers military operations abroad. Thus, the first step will be taken towards establishing military jurisdiction in the country.

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