# German government plans sweeping social attacks

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The new German government held a two-day cabinet conference Tuesday and Wednesday at Schloss Merseburg in Brandenburg. According to Chancellor Angela Merkel of the Christian Democratic Union (CDU), the meeting was meant to create "a comradely atmosphere in which we can resolve problems in a spirit of mutual trust."

The meeting was prompted by the open emergence of differences within the governing coalition during the new regime's first two weeks in office—over tax policy, public health policy and other issues. The disputes arose between the coalition partners—the CDU, the Christian Social Union (CSU) and the Free Democratic Party (FDP).

The direction in which the government is now heading is much clearer after the meeting at Schloss Merseburg. Financial policy decisions were taken that will lead to an unparalleled level of social devastation, beginning at the latest two years from now.

The government is still keeping most of its intentions under wraps, giving out no information about forthcoming budget cuts and delegating the issue of health "reforms" to an inter-ministerial working group, which is to present its proposals next year. The controversial issue of extending the life of Germany's atomic power plants was also postponed to next year, primarily for tactical reasons.

On the one hand, the government fears the public reaction if it puts all its cards on the table. Above all, it does not want to place in jeopardy next year's state elections in North Rhine Westphalia. If the CDU/CSU-FDP coalition loses power in the country's most densely populated state, it will lose its present majority in the Bundesrat (the upper house of parliament).

On the other hand, the chancellor wants to secure support for the impending social attacks from the trade unions and the opposition parties. In order to gain "the consent of all social forces for more employment," she invited the union leaders, together with the employers' associations and banks, to a crisis summit in Berlin in early December.

In pro-business circles, "more employment" is a codeword for the dismantling of workers' rights and the slashing of wages. Since the election, union leaders have demonstrated their readiness to cooperate closely with the new government on these questions.

Among the nominal opposition parties, the Greens are the pioneers when it comes to cutting public expenditure, and Merkel can count on their support. Since they have already joined CDU-led state governments in Hamburg and Saarland, discussions have begun in North Rhine Westphalia as to whether the Greens will help ensure that the CDU remains in power in that state legislature.

As for the Social Democratic Party (SPD) and the Left Party, they recently signed a coalition agreement in Brandenburg, at the centre of which is the dismantling of 20 percent of public service jobs. State Premier Matthias Platzeck (SPD) justified this by saying that by 2019 Brandenburg's budget will decline by 25 percent from its current level. In this respect, he is to a certain extent anticipating the policies of the federal government. His finance minister, responsible for proposing the cuts, is a member of the Left Party.

It is in this context that the central message emanating from Schloss Merseburg should be seen. Federal Minister of Finance Wolfgang Schäuble (CDU) and Economics Minister Rainer Brüderle (FDP) made a demonstrative show of unity before the press, announcing that taxes would be lowered, the European Union deficit criteria would be upheld, and the brake applied to federal debt, as enshrined last summer in the federal constitution. In 2011, taxes are to be reduced by around 20 billion euros and new graduated rates will replace the present progressive taxation system. In the same year, the budget deficit will be substantially reduced in order to reduce the federal debt.

It is clear what this means. Pointing to the exploding deficit, the government will cut public expenditure to an extent that has never before been witnessed, hitting government subsidies to both the pension fund and education spending. New and even greater gaps will arise in the coffers of the state legislatures and municipalities, which are already strapped for cash, leading to higher charges for services.

Economist Peter Bofinger commented in the *Passaue Neue Presse*: “I fear that a narrow gauge federal government is intentionally being brought about here. The first step was to agree to put the brake on the federal debt. Now taxes are to be massively lowered. The result will be to force a brutal cut in expenditure starting from 2011. Then the crowbar will be taken to all government spending.”

Bofinger is a member of the Council of Economic Experts. According to his calculations, the annual budgetary deficit will rise to 100 billion euros if the announced tax reductions come into force. However, the federal deficit must be lowered to 10 billion euros by 2016 in order to meet the legal requirement for reining in the federal debt. “Nobody in the federal government is saying how cuts of 30, 40, 50 billion euros can be implemented. But this is what is threatened in the coming years,” Bofinger concluded.

One item will surely remain exempt from cuts—the defence budget. The cabinet conference broke off its deliberations for one hour in order to agree to the extension of Armed Forces missions in Afghanistan and the Horn of Africa and off the Lebanese coast. The upper limit for Germany’s troop deployment in Afghanistan remains 4,500, but this may be raised following the international conference on Afghanistan at the beginning of next year.

The meeting in Schloss Merseburg has set the stage for a sweeping redistribution of income and wealth from those at the bottom of society to those at the top. The social divisions that have been growing for years will be widened. While the government is striving might and main to conceal this from the public, those occupying the executive suites at banks and corporations have long since gotten the message.

According to a report in the business daily *Handelsblatt*, the thirty largest German companies listed on the DAX exchange plan to disburse 20.3 billion euros in dividends to their shareholders this year, despite falling profits. This amounts to approximately 71 percent of their net profits. In the previous record year of 2007, they paid out 45 percent of their profits.

While the government is lowering taxes, saying business needs more capital to invest, the large corporations are doling out these funds to their shareholders. The planned dividend payout by the DAX-registered corporations corresponds almost exactly to the planned tax reduction of 20 billion euros.