German government plans massive spending cuts

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Since taking power in October, the German government—a coalition of conservative parties (Christian Democratic Union, Christian Social Union) with the avid free-market Free Democratic Party—has passed a so-called "Economic Growth Acceleration Law" which will free up billions of euros for sections of the middle class.

Now Finance Minister Wolfgang Schäuble (CDU) has announced plans for a range of severe budget cuts to take effect after elections take place next year in Germany's biggest state, North Rhine-Westphalia. The budget cuts make clear that the population at large will be called upon to bear the burden of the billions donated by the government to the banks and major concerns.

Until now the new government had—like its predecessor, the CDU-CSU-Social Democratic Party (SPD) coalition—sought to cushion the effects of the economic crisis. It continued to support the short-time working scheme that provides state subsidies to keep millions in work. This measure, together with the previous government's "cash for clunkers" scheme, enabled the ailing German auto industry to maintain high levels of production. At the same time, such schemes were only possible on the basis of the government acquiring new loans and increasing its budget deficit, which in 2010 is expected to exceed the record sum of over €100 billion. Under these conditions new austerity measures were initially postponed until 2011.

However, according to experts at the Car Institute at the University of Duisburg-Essen, "2010 will be brutal." They estimate that there will be up to one million fewer new cars sold in 2010. The turnover at Volkswagen, Germany's biggest auto company, could sink by as much as 30 percent.

Now Finance Minister Wolfgang Schäuble has announced his intention to present a far-reaching austerity budget in July of next year. He told the *Bild-Zeitung* on Monday: "We must reduce the structural deficit by approximately €10 billion per year starting from 2011. That will be difficult—but we have do it."

On December 16, Schäuble declared on the German ZDF television channel that he wanted to cut the state budget in 2010 by around €25-30 billion. His basic argument is that such cuts are absolutely necessary to comply with the "debt brake" introduced by the previous coalition, which sets a constitutional limit on the level of debt to be acquired by the government. The "debt brake" proscribes a deficit of just €10 billion by 2016. This means the government has to cut spending by no less than €90 billion within the next five years.

In fact, the total sum of German debt is likely to rise even further. The collapse of production in the automobile industry and the expiry of short-time working will lead to a rapid increase in the number of unemployed, reducing tax revenues and increasing the demand for social security payments—all additional burdens on the state budget.

At the same time, the government may well be required to make even more money available to the banks. A majority of the €2 trillion so far provided has taken the form of endorsements to be drawn upon when financial institutions are no longer able to raise their own finances. Given that, according to the chairman of Germany's biggest bank, Josef Ackermann of Deutsche Bank, there are still a number of "ticking time-bombs" in the wake of the finance crisis. Further bank collapses and major bailouts are on the agenda.

This means that the finance minister's talk of €10 billion a year in spending cuts should not be taken at face value. Schäuble is simply preparing the population for a series of radical cuts. He has also declared he will announce concrete measures after the North Rhine-Westphalia elections. “It is not clever to make any announcement four weeks before an election. In the run-up to an election there is a great deal of easy talk,” he said. The government is thereby seeking to avoid that its measures become the subject of the sort of democratic scrutiny provided by an election.

It is very clear who is to foot the bill. The contract drawn up by the government coalition partners already stated the intention of the government to dismember the welfare state. The contract proposes that existing state-sponsored pension and sickness schemes should transferred to a “private contribution”-based model. An increase in value added tax is also being discussed—a measure the hits the poorest hardest.

The first to feel the cuts, however, will be public service employees who are currently bargaining for a new contract. Although the Verdi trade union is only demanding a 5 percent wage increase after years of declining incomes, Schäuble declared: “I am shocked at the demand. In view of the budget situation the state does not have any leeway.” This is from the representative of a government that has made trillions available to the banks and freed up additional billions for the better off with its latest “Economic Growth Acceleration Law.”

This law is deliberately aimed at catering to certain layers of the middle class. It introduces a new rate of tax allowance that benefits wealthy families while families dependent on miserly social welfare payments receive nothing. Part of the government package also includes a massive allowance to hotel owners and their guests: value added tax for overnight accommodation is to be lowered from 19 to 7 percent.

Schäuble has received support from the leader of the CSU, Horst Seehofer, who declared that cuts were necessary in order to finance further reductions of taxes. Seehofer told the business newspaper Handelsblatt on Monday: “This means everybody also has to talk about savings, beginning with the administration, but of course not stopping there.”

The only sphere, alongside the banks, that will not be subject to cuts is the budget for the German army. Military expenditure will increase in the coming year from €29.4 billion to €31.1 billion—even though it would be possible to save €4.3 billion immediately in 2010 by merely cancelling orders for new military acquisitions.

There is no serious political opposition to the proposed austerity measures. As a member of the grand coalition, the SPD initiated the debt brake, which compels every succeeding government to implement austerity measures. In fact, the biggest ever attacks on the postwar German welfare state were initiated and implemented by the SPD.

The Left Party also supported the government’s rescue plan for the banks and has played a key role in enforcing attacks on the welfare state in those localities and states where it holds power. No serious opposition to the government’s austerity program can be expected from this party. In fact, the only reaction by Left Party deputy chairman Klaus Ernst was to ask Schäuble to reveal the details of his proposals prior to the elections in North Rhine-Westphalia.