



The Konrad-Adenauer-Stiftung presents:

---

*KAS Germany Update*  
*Current Issues in German Politics*

No. 10 – July 2003

I. **Agenda 2010: Tax reform and health care reform underway**

II. **Under Pressure: Metal workers union in disarray**

III. **Summer Farce: Strain on German-Italian Relations**

I. **Agenda 2010: Tax reform and health care reform underway**

Finally, after years of stalemate and inactivity, there is some movement towards reform in Germany—albeit slow and timid. Two of the major components of **Chancellor Gerhard Schroeder's** "Agenda 2010" for economic and social renewal are about to be signed into law: tax reform and health care reform. Both initiatives are a result of month-long negotiations and close cooperation with the CDU/CSU opposition, which holds the majority in the *Bundesrat*, the second chamber of the Federal Republic.

The first initiative, an across-the-board tax cut, was originally designed to come into effect in 2005. Under pressure from the opposition, the Schroeder administration decided to change this to 2004, in order to provide another economic stimulus. There is, however, disagreement about how to finance this step. **Mr. Schroeder** and finance minister **Hans Eichel** suggested a mix of new debt, sales of state property, and cuts in state subsidies. While CDU chairman **Angela Merkel**, CDU secretary general **Laurenz Meyer**, FDP chairman **Guido Westerwelle**, and other leading figures of the opposition are generally ready to accept this in order to save the important reform from failing altogether, others such as the *Ministerpraesident* (governor) of Hesse, **Roland Koch** (CDU), are strictly opposed to an increase in the federal deficit. Instead, they advocate a more massive cut in state subsidies in order to finance the tax reform.

Germany Update  
Germany Update  
Germany Update

**Mr. Koch** and the *Ministerpräsident* of Bavaria and chairman of the CSU, **Edmund Stoiber**, clashed publicly over this issue, revealing a rift not only within the CDU, but also between the sister-parties. In an address at a CSU party convention that launched the campaign for the upcoming state elections in Bavaria, Mr. Stoiber said he agreed that **Chancellor Schroeder's** financing model relied too heavily on new debt. Still, such a reform could not be financed completely without increasing the federal deficit and should not fail because of Mr. Koch's political maneuvering—after all, Mr. Koch had proven unable to pass his own budget in the state of Hesse without including an additional two billion Euros in debt. The party convention backed Edmund Stoiber as their candidate with an overwhelming 97% of the vote. However, the *Ministerpräsident* of Saarland, **Peter Mueller**, and the vice-chairman of the CDU/CSU parliamentary group in the *Bundestag* (German parliament), **Friedrich Merz**, sided with Mr. Koch, exacerbating the divide within the Union. Many commentators attribute this debate to a power struggle—Mr. Koch is said to be a serious challenger to **Angela Merkel** when it comes to the candidacy for the federal election in 2006.

On June 21, the SPD and CDU/CSU reached a true consensus on health care reform. Minister of health **Ulla Schmidt** (SPD) and vice-chairman of the CDU/CSU parliamentary group **Horst Seehofer** (CSU) presented the results of night-long negotiations, which met with unanimous approval from all leading German politicians. The reform is designed to reduce obligatory health insurance fees, which are—in part—responsible for the high cost of labor in Germany. According to the reform, dentures will no longer be paid for by the state health insurance. In addition, patients will be required to pay up to ten Euros each time they see a doctor, thus easing the insurance companies' burden. In a further step, the tobacco tax will be increased by one Euro per pack of cigarettes. All in all, these and similar measures should save up to 20 billion Euros by the year 2007 while simultaneously stimulating the job market. Still, even the creators of the reform such as Mrs. Schmidt argue that this can only be a first step to an even more revolutionary reform that will change the basic structures of the German health care system in favor of more individual responsibility, more competition among health care providers, and a broader basis of contributors. Mrs. Schmidt plans to develop such a reform by no later than 2010.

## II. Under Pressure: Metal workers union in disarray

Another indication of the changes in German politics and mentality is the dire situation of one of the best-organized anti-reform lobbies, the largest industrial union in the world, Germany's metal workers union *IG Metall*. Last month, the union experienced a historic defeat, when for the first time ever they had to terminate a strike without having any of their demands being met. For four weeks, metal workers in the eastern part of Germany were on strike, calling

for a 35-hour week instead of the current 38. In Germany's western part, the 35-hour week is established, but factories there have a higher productivity. The strike had a disastrous effect on the struggling industries in Germany's east and met with harsh criticism from virtually every noteworthy commentator and politician, including **Chancellor Schroeder**. In addition, major companies such as BMW declared that under these conditions, they had to reevaluate whether they could still invest in Germany's east. Thus, public opinion turned massively against the strikers, and the union's president, **Klaus Zwickel**, called it off.

In the aftermath of the defeat, **Mr. Zwickel** resigned after ten years as head of the union. For several weeks, reformers and traditionalists fought publicly over who should replace him until the traditionalists gained a victory: their leading man, **Juergen Peters**, the mastermind behind the failed strike, is set to become the next president—alongside the more reformist **Berthold Huber**. The final details of this agreement are up to a union convention later this summer. While the officials are fighting for power, the influence of the union continues to wane: About 50,000 members quit in the first half of 2003. The *IG Metall* has lost more than a million members in the last ten years, but more than 2.6 million metal workers are still organized in the union.

### III. Summer Farce: Strain on German-Italian relations

This summer, German-Italian relations hit a low when Italy's President **Silvio Berlusconi** suggested in a heated debate with **Martin Schulz** (SPD), a German member of the European parliament, that he was a perfect cast for the role of a guard in a concentration camp. Shortly after the incident, US-President **George W. Bush** caused some irritation in Germany and the rest of Europe by expressing his delight that such a great leader as Mr. Berlusconi was now President of the European Council. A few days later, Italy's assistant secretary for tourism, **Stefano Stefani**, published an article in which he slandered German tourists as "super-nationalist blondes, who noisily ravage Italian beaches." As a consequence, **Chancellor Schroeder** cancelled his traditional summer holiday in Italy and declared that he would stay at home in Hanover, Lower-Saxony. After a phone call from Mr. Berlusconi, the resignation of Mr. Stefani, and an invitation from Italy's head of state **Carlo Ciampi** to the music festival in Verona, Mr. Schroeder announced he would love to travel to Italy again.

*Text & Research:*

*Patrick Keller*

**For comments, please contact:**

**Karl-Heinz Kamp**  
Security Policy Coordinator  
karl-heinz.kamp@kas.de