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Not Different, but Better (November 10, 1998)

The government change, as newly elected chancellor Gerhard Schröder remarks in this policy statement, also represented a generational change. Schröder explains that financial burdens inherited from the Kohl era would force his new government to consolidate expenditures, and he makes reference to the SPD campaign slogan “We don’t want to do everything different, just better.” He also vows to use unemployment figures as the measure of his government’s success. As it turned out, unemployment remained high during his years in office and the promise haunted him throughout his entire chancellorship.

Policy Statement by Chancellor Gerhard Schröder, November 10, 1998

Mr. President,
Esteemed ladies and gentlemen,

For the first time in the history of the Federal Republic, the absolute vote of the electorate has brought about a change in government.¹ Voters have called on the Social Democrats and Alliance 90/The Greens to lead Germany into the next millennium. This change is an expression of both democratic normalcy and a mature democratic consciousness. We can be proud that the people of Germany have dealt a clear rejection to right-wing extremism and xenophobic tendencies.

At this point, I would once again like to thank my predecessor, Dr. Helmut Kohl, for all his work and for his graciousness in handing over the office.

Tremendous tasks lie ahead of us. The people expect better policies for Germany. We know that everything starts with economic strength. And we need to:

¹ The need to form coalitions between (at least) two parties to gain a majority in the Bundestag has encouraged the splitting of votes and has given party leaders some leeway in negotiating coalition partners. In 1998, the defeat of the incumbent parties CDU/CSU and FDP was so decisive that the only feasible government coalition was between Alliance 90/The Greens and SPD. In addition, for the first time, the coalition was an altogether new one; no previous coalition party (in this case CDU/CSU and FDP) entered the new coalition. Therefore, this time the voters and not the maneuvering of party leaders determined the future coalition government – eds.

- modernize the government and the economy
- restore and ensure social justice
- strengthen the “European House” economically, socially, and politically in such a way that the common currency will be able to succeed
- promote Germany’s internal unity

and most importantly, in all of this [we need to]:

- make sure that unemployment is reduced, that existing jobs are maintained and new jobs are created. For this, we need new enterprises, new products, new markets. We need faster innovation, better training, and tax and excise duty policies that relieve the burden on labor.

This federal government will shoulder the problems. And it will mobilize the creative forces in our country. Our starting conditions are anything but favorable. The previous administration by no means left us a “well-ordered house.”

The results of our preliminary financial check-up reveal the gravity of the situation. The federal debt has been driven up to more than a trillion Deutschmarks (DM). The current federal budget is burdened with interest obligations in excess of 80 billion DM. This means that one in four Deutschmarks collected by the federal government in taxes must be spent on interest payments. Budgetary risks in the billions were ignored.

Revenues were overestimated and expenditures underestimated. For years, the budget was balanced only through one-time effects whose impact vanished quickly. But the major budgetary burdens, the significant structural problems of the federal budget, were simply put off for the future.

According to the latest established figures, in the medium term, the annual new debt must be reported as up to 20 billion DM higher than the financial plan shows. I cannot and will not accept that. Therefore, I will say this right from the start: the financial situation that we have inherited forces us to embark on a decisive course of consolidation.

We will not be able to avoid structural interventions. All federal expenditures must be scrutinized. Government actions need to be more precise and more economical, and the abuse of welfare payments must be curtailed. We will have to make sure that subsidies and social benefit payments are more clearly directed to the truly needy than they have been up to this point.

The citizens do not expect us to do everything at once. But they are entitled to demand that we do more than talk – that we act. And [they are entitled to demand] that politics finally focuses on the people once again.

1.

We said that we don't want to do everything different, we just want to do many things better. We will keep our word. We say this to those who want to continue fighting campaign battles, those doomsayers who spread this paralyzing pessimism that has prevented our country from taking the necessary steps to adapt to reality for long enough.

But we will also call out to those who feel that present decisions don't go far enough. We want to bring all parts of society together and overcome the deep social, geographical, and mental and cultural division that our country is facing.

We will modernize Germany with resolve and valiantly advance our internal unity. This requires an uncompromising assessment of the situation. Also and above all: we need to focus on our strengths. And trust that we can get the job done.

This government change is also a generational change in the life of our country. Today our country is being increasingly shaped by a generation that did not personally experience the Second World War. It would be dangerous to misconstrue this as an abandonment of our historical responsibility. Every generation leaves a legacy for the next one; no one can talk himself out of anything by mentioning the "blessing of being born late."²

For some, this generational change presents a great challenge. One look at the government bench or into this parliament shows what influenced the vast majority of us politically. Here are biographies of lived democracy.

We have experienced and participated in the cultural upheaval that followed the time of restoration. Many of us were involved in the civic movements of the 1970s and 1980s. The civil rights groups of the former GDR, which, together with the East German Social Democrats, shaped the peaceful revolution, are part of this government. This generation stands in the tradition of public spirit and civil courage. It has grown up by protesting authoritarian structures, by trying out new social and political models.

Now this generation – and with it, the entire country – is called upon to make a new political pact to thoroughly eliminate the stagnation and voicelessness into which the previous government led our country. In their place we will introduce policies that promote and reinforce individual responsibility. This is what we call the politics of the "New Center." We will take this path in partnership with others. Everyone inside and outside the country can count on our government's commitment to its social and political responsibility.

² Here, Schröder was referring to Helmut Kohl's reference in his 1984 speech before the Israeli Knesset to his enjoying the "blessing of being born late" ["die Gnade der späten Geburt"] as Kohl was too young to carry guilt from the Nazi period – trans.

The hopes placed on us are almost overwhelming. But a government cannot improve a country on its own. Everyone must help out. And the more initiative and energy people devote to reforming our society, the greater the success will be.

The people of Germany do not lack creative powers. We will help them develop these powers.

2.

Ladies and gentlemen, there is no doubt: mass unemployment continues to be our most pressing and painful problem. It leads to psychological breakdowns and the collapse of social structures. It destroys the hopes of some and makes others afraid. And it presently burdens our polity to the tune of 170 billion DM a year.

The federal government is fully aware that it essentially owes its election to the expectation that it will be able to effectively reduce unemployment. And it is precisely this challenge that we will tackle.

Every measure, every instrument will be scrutinized in order to determine if it secures existing jobs or creates new ones. We want to be able to be judged at any time – not just in four years – by how much we are contributing to the fight against unemployment.

The tax reform that we are about to introduce is a first step in this direction. We will not continue to talk about the need for tax reform for another sixteen years and weigh the pros and cons of various interest groups. No, ladies and gentlemen, we are going ahead with this tax reform.

The reform is based on insights into economic necessities. It combines modern pragmatism with a strong sense of social fairness. It focuses on offering relief to the employed and their families, as well as to small and medium-sized businesses. We want to and will fortify their innovative strength. Both of these things together will help reduce unemployment, create new jobs, and secure existing ones.

Our tax reform includes relief amounting to a total of 57 billion DM. After counter-financing, fifteen billion DM will remain for taxpayers and businesses as a net tax relief. There will be a lasting reduction in income tax rates, and the child allowance will be increased. Over the entire legislative period, an average-income family with two children will benefit from a net tax relief of 2,700 DM annually.

We will close tax loopholes and abolish unjustified perquisites. This clearly shows that we are distributing societal burdens more justly.

We will also fundamentally reform business taxation. Taxation of company revenue will be limited to thirty-five percent at most. We are now creating the necessary legal prerequisites. This

will provide relief to small and medium-sized businesses, which – let me repeat – will play a key role in creating new jobs.

Ladies and gentlemen, despite what is occasionally claimed, we have also taken the concerns of small and medium-sized businesses into consideration. The loss carryover will remain. A one-year loss carryback will also remain for losses arising in 1999 and 2000, up to a maximum of 2 million DM. The reinvestment of earnings from the disposition of land will continue to be supported pursuant to § 6b of the Income Tax Law.

The special allowance and investment reserves for business start-ups can be taken advantage of without any changes. They will remain for small and medium-sized businesses through 2000.

The tax rate reduction for capital gains will merely be restructured through an accounting distribution of the profit, it will not be eliminated. This will contain the loss allocation models – this needs to be acknowledged – but it will not have any negative effect on the successor enterprise.

As our initial steps show, we will make the tax law more transparent and therefore more efficient. Unnecessary tax subsidies should be eliminated and valuable tax revenue should no longer be wasted on senseless tax-saving models.

Ladies and gentlemen, let me speak briefly about the comprehensive widening of the assessment base, as was announced in the coalition agreement. Interested circles have acted as though our tax reform literally aimed to take the butter off the bread of businesspeople. To that, it must be said that in the past years only very few of them profited from tax relief. The vast majority suffered from tax burdens. Every reasonable tax reform must first stop this trend that you [i.e., the previous government] triggered.

People in this country can recognize the sea change that we have introduced: relief and simplification instead of ever higher taxes and ever declining transparency. I think that anyone who is genuinely interested in substantive issues will willingly accept our invitation to consult in a joint commission on the structural reform of the tax law.

I would like to say one thing to those who have been heaping the sharpest accusations upon us in the last few weeks: wanting low and simple tax rates, like those in the United States, for example, and at the same time wanting to maintain a high number of exemption provisions, as we have had in Germany up to now, simply doesn't work.

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Source: Policy Statement by Chancellor Gerhard Schröder at the 3rd Session of the German Bundestag, November 10, 1998, *Bulletin* (Press and Information Office of the Federal Government), no. 74, November 11, 1998.

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