PETER MÜLLER

Premier explains Saarland's innovations as a German state

INTERVIEW BY FELIX KNÜPLING

Germany, the largest federal country in the European Union, became the Federal Republic of Germany in 1949. It has had a tradition of federalism both in the Weimar Republic from 1919 to 1933 and previously in the time of the German Empire, from 1871 to 1919. Germany's 16 states participate in the federal legislative process through the Bundesrat, Germany's upper house. All state governments are entitled to a specified number of seats in the Bundesrat based on their population.

In this issue, Federations interviews **Peter Müller**, Premier of the German state of Saarland. Premier Müller speaks, among other topics, about innovation, autonomy and diversity among Germany's 16 states*.

Prior to becoming the Premier of Saarland in 1999, he served from 1990 as a member of the state parliament of Saarland. From 1994 through 1999, he was Chairman of the Saarland Christian Democratic Union political caucus as well as Leader of the Opposition. Mr. Müller was recently elected President of the Bundesrat, a post he took up on Nov. 1, 2008.

Premier Müller was interviewed by Felix Knüpling, the Forum's Director of European Programs.

* Germany has 16 subnational units called *Länder* ("states" in English).

FEDERATIONS: What does federalism mean to you?

PREMIER MÜLLER: Federalism is an expression of the regional autonomy and cultural diversity of a country. It's a bulwark against a centralism that discourages innovations and against the counterproductive concentration of power; therefore, it is an important element of a living democracy. It's easier to focus on the specific situation of a particular region and the needs of its citizens in a federal country. Federalism is an institutionalized driver of innovation, since it promotes creative competition among different political models. However, to prevent this competition from becoming detrimental to the living conditions and future potential of individual regions, we need a fair set of rules and comparable opportunities right from the start. Unfortunately, this is currently not the case in Germany, primarily because of the current structure of financial equalization among the states.

FEDERATIONS: What is Saarland doing that is different or better than its neighbour, Rheinland-Palatinate?

PREMIER MÜLLER: Saarland consistently takes responsibility for how it structures its own programs. If there's a need to take action, we don't wait for the other states to do something; we just go ahead and do it – as we did in the case of early childhood education or the increased protection of young children against abuse and neglect. Saarland is also aware of its role as a leader, even if the other states don't immediately approve. For example, when Saarland was the first state to make the third year of kindergarten free of charge, Rheinland-Palatinate was initially very critical of this decision—then decided to adopt the same measure.

FEDERATIONS: In a recent poll, one quarter of all Germans said they were in favour of eliminating the states.

PREMIER MÜLLER: This survey confirms my opinion that we shouldn't take the important cornerstones of our basic democratic order for granted, but rather that we should campaign for its acceptance every single day. I'm convinced: if everyone noticed that the alternative to federalism — namely centralization — means less innovation, less citizen involvement and inequitable living conditions, then the minority of those polled would join the majority.

FEDERATIONS: A majority of Saarlanders could see a merger with Rheinland-Palatinate.

PREMIER MÜLLER: After countless personal conversations, and in light of other surveys, it seems highly unlikely to me that a majority of Saarlanders really would like to merge with Rheinland-Palatinate. Aside from the difficult "technicalities", such as the question of a new state capital, a merger wouldn't solve any problems. It wouldn't solve the budget crisis and it would only lead to new problems in areas such as economic and regional policies.

FEDERATIONS: Many of your party colleagues in the CDU often talk about the need for more competitive thinking in support of the solidarity and equalization on which German federalism rests. What do you think?

PREMIER MÜLLER: Thinking competitively is also a basic element of German federalism. However, for constructive competition to develop, there has to be an appropriate set of framework conditions that allow all the states to start from the same point. That's why, in my opinion, the Commission for the Modernization of Federal-State Financial Relations (*Kommission zur Modernisierung der Bund-Länder-Finanzbeziehungen*) must find a fully

integrated solution. Increasing competition between the states can't happen without increasing funding to them based on their responsibilities. All states need to see a balanced budget. In the process, various prior financial commitments will have to be taken into account. Then, and only then, will competition be possible.

FEDERATIONS: Because of its budget crisis, Saarland has gone to the Federal Constitutional Court seeking increased support from the federal government. It and the other states believe that Saarland can achieve a balanced budget on its own. What funding efforts would you introduce for the future?

PREMIER MÜLLER: During a sitting of the Commission for the Modernization of Federal-State Financial Relations a few weeks ago, it was confirmed, as part of an analysis of the state budgets of Bremen, Saarland and Schleswig-Holstein, that Saarland has the lowest structural expenditures of all the states. To date, we've severely restricted our spending and, in future, we'll benefit from the structural savings measures that we introduced years ago. The amount and rate of increase are well below those of the national average. We've already consistently cut costs. What's more, I don't see the potential for any further reductions. The call by some commissioners for additional and more serious reductions to achieve a balanced budget without any funding help would only mean that comparable living conditions throughout the federal republic could no longer be guaranteed and that the quality of life enjoyed in a particular state would greatly suffer.

FEDERATIONS: In general, what results do you expect to see from the Commission, of which you are a member?

PREMIER MÜLLER: We have a clearly defined goal: to stop the move to debtor nation that Germany began during the major financial reform of the late 1960s. To do this, the new indebtedness must be turned as far back as possible to zero. If we can codify and actually maintain this on a continuing basis, then we've achieved the first success. Because of their structural differences, various states are currently not in a position to respect the current limits on borrowing, nor will they be in a position in future to comply with even stricter limits. The funding assistance proposed by the co-chairmen of the Commission represents a first step that, along with other tools, will allow all states to approve tighter controls on new indebtedness. In a second step, once a structurally balanced budget is achieved, it will be possible to focus on debt reduction.

FEDERATIONS: In your opinion, can the Commission reach a long-term, sustainable solution when politically sensitive issues, such as financial equalization among the states or restructuring, are ignored?

PREMIER MÜLLER: Yes. We shouldn't set the bar too high with respect to the demands made on the Commission. Just a few years ago, we were going through the greatest public financial crisis in the history of the Federal Republic of Germany. Every year, Germany fails to meet the requirements of the European Stability and Growth Pact. Therefore, if we succeed in agreeing on a strict new-indebtedness rule in conjunction with funding assistance, this would be a major achievement and a prerequisite for discussions to be held in a few years, as part of Federalism Reform III, on reforming financial equalization and on working together to reduce old debts.

FEDERATIONS: Does the call for tax relief made, in fact, by your party, threaten the Commission's chances for success?

PREMIER MÜLLER: Our overriding goal is the funding of government budgets, bearing in mind our responsibility towards future generations. The earliest the federal budget will not need to incur new debts will be 2011, which is why extensive tax-reduction models can no longer be implemented during this legislative period. Therefore, I consider it simply irresponsible to promise people significant tax cuts for as early as next year. Tax relief is essential, but only through a step-by-step process implemented over time and that doesn't call into question budgetary restructuring. I'm confident that the Commission, when it meets for the last time in mid-October, will decide on a conclusive, total package that will take us on the road away from being a debtor nation.

FEDERATIONS: The Swiss cantons or Canadian provinces have a lot more authority when it comes to tax revenues than the German states. Would you like to see more decentralized responsibility in this area?

PREMIER MÜLLER: Greater fiscal autonomy basically needs to be looked at from two perspectives. On the one hand, it would offer the states the possibility, on the revenue side, to make the new debt restrictions more manageable and to gain more room to manoeuvre. On the other hand, the risk of a competition that may, by its very nature, lead to a decline, always exists, with long-term, negative implications for all the states. Therefore, greater fiscal autonomy could only be justified if the initial conditions were the same for all the states and it could only exist in a narrowly defined context to avoid tax rates from drifting further apart, with the corresponding economic and political ramifications.

FEDERATIONS: The federal states are involved in the decision-making process at the European level. When it comes to matters that directly impact their areas of responsibility, such as education and culture, they sit at the negotiating table in Brussels. What importance does any development at the European level have for federalism in Germany?

PREMIER MÜLLER: If the rights of the German states to participate in European policy-making stipulated in the Basic Law and in European provisions are consistently respected, then European integration will have no negative impact on the states of Germany. In this respect, it is important that the Treaty of Lisbon be implemented, despite its rejection by Irish voters, because it reinforces the principle of subsidiarity. I also believe that Europe promotes German federalism, since it facilitates co-operation between municipalities and states across national boundaries. In this way, European development offers many possibilities for each region to realize its potential. We must always take advantage of these opportunities.

FEDERATIONS: What are the major questions relating to German federalism that will have to be answered in the next 10 to 20 years?

PREMIER MÜLLER: Intergenerational equity, in my mind, is the topic that will influence the discussion on the future of German federalism over the next few years. We need to ensure that we don't negatively impact the chances of future generations by leaving behind major debts and an outdated infrastructure. This will mean consolidating our budgets without neglecting important investments in the future. Given the fact that major future investments—whether they're in the areas of education, childcare, health and long-term care or transportation infrastructure—are all definitely the responsibility of the states, intergenerational equity will be more relevant at the state level than at the federal level. We need to be ready to take up this challenge.