German capitalism in transition: globalization and the erosion of "Germany Incorporated"

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23 March 2000

The World Socialist Web Site *is publishing here the editorial of the new issue of* Gleichheit, *the bi-monthly magazine of the Socialist Equality Party of Germany. Gleichheit contains the most important articles published by the WSWS.*

Two record-breaking mergers made the headlines in recent weeks: the acquisition of the Mannesmann Group by British cell phone company Vodafone Airtouch and the merger of Deutsche Bank and Dresdner Bank. At a price of 370 billion marks, the former was the most expensive company takeover in history, and the latter created the world's biggest bank with a balance-sheet total of approximately 2.5 trillion marks.

But, as spectacular as these two mergers are in themselves, they are merely the most acute expression to date of a general development that is not only shaking Germany's traditional economic system to its very foundations, but is also having profound effects on politics and society as a whole.

The origin of Germany's distinctive economic structure, often referred to as "Germany, Incorporated", dates back to about 130 years ago. In the early 70's of the 19th century, as the German Reich was taking shape, joint-stock companies shot up like mushrooms because they were able to quench burgeoning German industry's thirst for capital. But already in 1873, there was a major stock market crash. Stocks fell into disrepute, and the banks took over the financing of industry. Through their loans and industrial holdings, the banks were privy to the internal affairs of practically all sectors of the economy, and soon began exerting a dominating influence. It was during this period that the system of "universal" banks emerged, a system which still exists up to this very day. Both Deutsche Bank and Dresdner Bank were established at about this time.

This system survived two world wars, the Weimar Republic and the Nazi regime, forming the basis for the economic boom in the post-war period after 1945. High-performance industries such as chemicals, automobile construction and machine construction were the most visible features of the economic system, but control was in the hands of the banks. They dominated the supervisory boards and created a tight-meshed network of interrelationships through cross-holdings. Personal acquaintance and mutual agreements were far more important than a company's stock price. Together with the Allianz insurance group, Deutsche Bank and Dresdner Bank were regarded as the unofficial rulers of the economy. They ensured relative stability by preventing ruinous competition and insulating the system against outside influences.

In addition to this, the inclusion of the trade unions in the supervisory boards of the large corporations as part of the "co-determination" labour relations policy ensured peace on the class conflict front. Although this was never genuine co-determination providing workers with a means of democratic influence, the constant flow of information between works councillors, trade unions, companies and banks did make it possible to identify and defuse potential sources of conflict before they came to a head.

All this is now being eradicated. The culture of the stock market, for many years a distinctive feature of the American and British economies, is now permeating Germany at an enormous rate. The total stock market value of all German joint-stock companies has soared exponentially from 826 billion marks in 1995 to 2.8 trillion marks in 1999. In the same period, stock exchange turnover nearly tripled, and the number of stockholders increased to five million.

The take-over of Mannesmann, a company with a long tradition, by the upstart Vodafone group made it abundantly and abruptly clear that the stock market value of a company now counts for more than time-hallowed traditions and long-term strategies. By merging and focusing on investment banking, Deutsche Bank and Dresdner Bank are now taking the initiative to reshape the entire economy accordingly. Other large-scale mergers—both in the banking sector and in industry—will follow.

The social consequences of this development are devastating. The 16,000 jobs that are falling by the wayside through the merger of the two banks are just the tip of the iceberg. The effects on those banks which are late in jumping on the merger bandwagon will be much harsher. Already now, over-the-counter retail banking, the sector in which most bank employees work, is regarded as a loss-making business in its entirety. The constant pressure for higher returns will also drastically accelerate the rate of layoffs in the rest of industry. At German Rail, for instance, where job cuts have already resulted in a number of terrible rail accidents, a further 70,000 jobs will be eradicated as the privatisation process is completed.

At the same time, the stock market boom is widening divisions in German society. The effortless profits accumulated in the stock market, gains from which only the upper ten percent of society benefit, and the concurrent income and social welfare cuts are causing an ever greater division of society into poor and rich. *Der Spiegel* magazine sees it as "a definite fact that Germany is drifting apart, and that the nation will soon be confronted with a new public debate on wealth and poverty."

The crisis of the conservative Christian Democratic Union is part of this process. Its current finance scandal is not so much the cause as rather the immediate occasion for the breakdown of this traditional "people's party". The relentless pressure of the finance markets has made it impossible to reconcile the interests of the different social strata grouped within the CDU as in the past. Further disintegration of the party is inevitable.

But the ruling Social Democratic Party (SPD) will not be spared by this crisis. Its current strength rests entirely on the CDU's weakness. Lacking any parliamentary opposition, the SPD has moved further away than ever from its traditional electorate. It seems almost ironic to see an Social Democrat-led government, of all things, being praised to the heavens by employers associations and banks for having opened up the way to the most dramatic restructuring of the German economy in decades. They are particular enthusiastic about the repeal without substitution of the 50 percent tax on the capital gains of joint-stock companies, which was passed as part of the present government's latest tax reform. This repeal was what made the current wave of mergers possible in the first place.

It would, however, be a mistake to attribute the current upheaval of society entirely to subjective factors, i.e. the machinations of industry bosses and politicians. They themselves are reacting to international changes over which they have no control. The domination of the economy by transnational corporations, the burgeoning of the international stock exchanges and financial markets, and the ready access to these markets via the Internet—all this has led to an intermeshing and integration of the world economy that is unparalleled in history.

The current wave of mergers is not least of all determined by the question of who dominates the world economy. Today, the conflicts between the great powers are no longer only about colonies, sources of raw materials and sales markets—they are, above all, also a struggle for domination of the international finance markets. It is thus only logical that Deutsche Bank boss Rolf Breuer sees the merger with Dresdner Bank as being merely the first "step towards further expansion." His goal is to achieve a dominant position in the US market, as well.

Inevitably, the struggle for supremacy in the global economy also results in foreign policy conflicts. The heated dispute about who should be appointed head of the International Monetary Fund is a serious warning of things to come in this context. The German government vehemently insisted on its own candidate, Caio Koch-Weser, and the U.S. government just as vehemently rejected him.

The daily newspaper *Sueddeutsche Zeitung* commented: "The day will come when historians interpret the clash between Europe and the USA in the matter of Koch-Weser as having been not merely an argument about an appointment or the political orientation of a financial institution. This affair is actually a symbol of massive trans-Atlantic discord, of a fierce power struggle for separate interests and influence.... Never before has Germany pursued its own interests with such vehemence."

A political response to the effects of the wave of mergers must take into account this international dimension. A return to former conditions, to the perceived shelter and security of the nation-state, is impossible. Such nationalistic reactions to the effects of globalisation are grist to the mills of right-wing demagogues such as Joerg Haider in Austria.

But there are also left-wing opponents of capitalism who propose the defence of "national sovereignty" as an answer to globalisation. Canadian professor Michel Chossudovsky is one of them. In reply to Professor Chossudovsky's widely held views, Nick Beams has written an article entitled "Marxist Internationalism vs. the Perspective of Radical Protest". Chossudovsky, he writes, "despite his criticism of capitalism in the final analysis provides a theoretical platform for those who want to revive and strengthen a central political mechanism of capitalism—the nation-state."

As opposed to this, the programme of the International Committee of the Fourth International and its German section, the Socialist Equality Party, is directed towards "promoting the struggle of the working class to conquer power and the re-organisation of society on a socialist basis." This programme "is oriented to the future and to the needs of the international working class which itself is a product of the international character of modern economy. Its goal is to open up the enormous potential of the globalized production system in order to bring forward mankind as a whole."