Germany: SPD-Green "reforms" spell bonanza for shareholders

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For millions of workers, unemployed persons and pensioners in Germany the year 2005 will go down in memory as a year of social decline: the destruction of tens of thousands of blue and white collar jobs, an increase in cheap wage labor, stagnating and sinking real incomes, increasing insecurity due to reforms of the job market, the decay of schools and infrastructure in municipalities which have been bled dry of finances—the list is virtually endless.

Things look otherwise for the prosperous and propertied. The German share index DAX rose by 27 percent during 2005 and on the Wednesday before Christmas soared to its highest level for nearly four years—yielding bumper bonuses for investors.

There is a direct connection between the general social decline at work in Germany and the boom in share and stock quotations.

A powerful driving force in the rise in share values is the activity of foreign share and hedge funds—so-called risk investors. They have discovered Germany to be a lucrative market, where the takeover and resale of companies can realize far more profit than is to be obtained in the US or England. According to a study by the audit firm Ernst & Young, financial investors bought up 133 German enterprises during 2005, investing about €30 billion. About a half billion euros of this total stemmed from German holding companies, the remainder coming mainly from Anglo-Saxon funds. The actual total could well be substantially higher, since the study deals only with companies whose purchase price is publicly declared.

This wave of takeovers is also set to continue in the coming year. Experts think it is only a question of time before a DAX company (i.e., one of the 30 largest German enterprises) is also subject to takeover.

This development is bound up, on the one hand, with the gigantic sums which the risk funds have at their disposal. According to the fund company Adveq, such risk funds have amassed the sum of €240 billion from investors in the last year alone. These hedge funds then normally take over companies on the basis of three quarters of the transaction being funded by credit. This means they have a sum total of a trillion euros at their beck and call.

On the other hand, the attractiveness of German companies for hedge and share funds is a consequence of the "reforms" carried out by the Socialist Democratic Party (SPD)—Green Party coalition that governed Germany up until this autumn. SPD chancellor Gerhard Schröder's anti-welfare "Agenda 2010" program and his Hartz laws did nothing to lower Germany's huge unemployment levels; at 4,530,000 officially unemployed in November, this figure was 200,000 more than a year before. The SPD-Green "reforms" did, however, put enormous pressure on wages and working conditions, making German enterprises extremely profitable and thus lucrative candidates for takeover.

Already this summer, Ernst & Young announced: "Other than in the US and Great Britain there are still numerous enterprises with attractive development chances which can be favorably acquired in Germany. From the investors' point of view the German market is still far from being played out. It promises both a comparatively high potential for development and also high yields of capital."

And the *Manager Magazine* was jubilant in September, immediately after the German federal election, when it remained uncertain which parties would form the next government: "Share values have disengaged themselves from the economic state of a country with nearly 5 million unemployed, 1.4 trillion

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euros in national debt and experiencing one of the deepest depressions of the postwar period.”

The magazine responded to the question of how “stock exchange boom and politico-economic collapse” were compatible with one another: “Despite difficult basic conditions in Germany companies have managed to push down wage costs to an internationally competitive level. Basically it is this misery which makes it easier for companies to implement unpopular measures like the transfer of jobs or overtime work.”

Investment funds lure their investors with promises of yields of up to 20 percent. Under conditions where companies are plundered for all they are worth and as a result redundancies are common, the “risks” are more likely to be carried by company employees rather than the investors themselves.

The hedge fund companies largely finance their company takeovers through debt, the burden of which is then assumed by the enterprises which have been bought. These therefore largely pay for their own takeover and must then retrieve the considerable costs involved through rationalization measures, wage cuts and dismissals. Having been “reorganized” in such a fashion they are then once again sold off to the highest bidders—with substantial profits for the fund companies.

A typical example of such practice is the recent takeover by the British investor David Montgomery of the Berlin publishing house which produces such papers and magazines as the *Berliner Zeitung, Berliner Kurier,* and *TIP*. Montgomery paid €182 million, over half of which was financed by the publishing house itself, which up to this point had been free of debt. Now the publishing house has to pay the interest rates and the installments for a debt burden totaling €95 million. Since then Montgomery has announced his aim of increasing the yield on turnover from its current level of 12 percent to 21 percent, which in the ferociously competitive world of publishing can only be achieved by drastic cuts at the expense of the company’s staff. Almost inevitably the editorial independence of the up to now left-liberal *Berliner Zeitung* will be sacrificed at the altar of profit.

In the course of the recent German election campaign SPD Chairman Franz Müntefering had complained about such practices and called such international investment funds “locusts.” His critique had no practical consequences, however. Müntefering could not ignore the fact that with its attacks on workers’ rights and social security benefits the government of SPD leader Schröder had created an ideal environment for the activities of the investment funds. “Müntefering abuses the locusts, Schröder wants to feed them,” was one appropriate newspaper comment at the time.

It is now clear that the effect of the “Agenda 2010” legislation has been a massive redistribution of wealth from the poorest social layers to the rich—a process in which Müntefering, who is now vice-chancellor of Germany’s grand coalition, played a key role. In addition, he could rely on the support of the country’s trade unions which for years have OK’d collective wage agreements under the rate of inflation, supported a broad deregulation of job contracts and nipped every workers’ struggle in the bud.

The trade unions, which unconditionally defend capitalism and limit their political perspective to the defense of the “location of Germany” against international competition, have become pliable tools in the hands of the major concerns. In the meantime, Müntefering’s locusts have spread from across the Atlantic and English Channel to the heart of Germany.

German companies, which cooperate closely with the trade unions, belong to the group of major international investors and obtain a majority of their profits through cheap labor exploitation in Eastern Europe and Asia. Investment banks like the Deutsche Bank are keen to finance the deals undertaken by investment funds. The Chemical giant BASF makes 40 percent of its profit abroad, software company SAP makes 76 percent of its turnover in other countries, and sportswear and accessory manufacturer Adidas as much as 93 percent.

The working class can only oppose the combined power of international capital by breaking with the SPD and trade unions and uniting on the basis of an international socialist perspective.

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