

Germany: Parliament authorises €500 billion bank bailout

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Last week witnessed unprecedented events in the history of post-war Germany.

The Bundestag (federal parliament) agreed on a €500 billion bailout package for the banks last Friday morning. The so-called "Financial Market Stabilisation Law" passed with 476 deputies in favour and 99 opposed, with 1 abstention. The law was immediately nodded through the Bundesrat (upper house) and was then promptly signed into law in the early afternoon by President Horst Köhler, coming into force on Monday of this week.

Never before has a law been enacted so quickly. It took only six days from the announcement by the Christian Democrat parliamentary group leader Volker Kauder on the evening of October 12 on the "Anne Will" talk show—this also was a novelty—until it was signed into law by the president last Friday.

To make this possible, every parliamentarian waived his or her constitutionally enshrined rights, including all those deputies from the Left Party and the Greens.

The *Frankfurter Rundschau* said the process betrayed the "classic logic of a state of emergency," and it compared the "economic emergency act of 2008" with the "1968 state of emergency."

In chilling words, Social Democrat Thilo Sarrazin, finance minister in the Berlin city government, even spoke of an "Ermächtigungsgesetz" (Enabling Act). On March 23, 1933, the German parliament passed the Ermächtigungsgesetz, handing over absolute power to Adolf Hitler. This comparison did not, however, prevent Sarrazin from supporting the law in the Bundesrat on Friday.

The speeches that were delivered in the Bundestag bore no trace of self-criticism. Quite the opposite—the government parties (Christian Democratic Union, Christian Social Union, Social Democratic Party) celebrated their capitulation to the banks, saying they had done everything they could over the past week, working into the early morning hours each day, to make this unparalleled legislative action possible.

During the debate, SPD party leader Peter Struck thanked the parliamentarians in the Bundestag for their cooperation. He said the expedited procedure was "encouraging for the whole house" and spoke of an "unparalleled effort," which all had achieved together. His colleague, Volker Kauder, parliamentary leader of the CDU/CSU, said proudly, "It was down to us this week, and we rose to the occasion."

President of the Bundestag Norbert Lammert (CDU) called the week "impressive proof of the capacity to act of our constitutional bodies" and "impressive proof of the often invoked democratic solidarity."

And Free Democratic Party (FDP) leader Guido Westerwelle stated, "it is a package that serves Germany." All deputies were obliged to

avoid "damage being done to the German people." Therefore, the FDP would support the legislation.

The two other opposition parties in the Bundestag, the Greens and the Left Party, did not vote for the legislation.

Green parliamentary leader Renate Künast described the law as "a €500 billion blank cheque," which had been produced with the help of bank managers and therefore embodies the sentiment "Give me the money and don't interfere." The government had capitulated to the banks, she said. "You sit here holding up white flags," Künast told the government benches.

The leader of the Left Party parliamentary group, Gregor Gysi, complained that if the directors of the Deutsche Bank decide what the Bundestag has to do, then democracy is "seriously imperilled."

But that is just hot air. The Greens and the Left Party could have prevented the law passing so quickly if, at the beginning of the week, they had refused to support the use of expedited proceedings. On Monday morning last week, Chancellor Angela Merkel had first sought agreement from all party leaders—in other words, including Künast and both Left Party parliamentary leaders, Gregor Gysi and Oskar Lafontaine—that the "€500 billion blank cheque" would be issued by Friday. The latter had already signalled his agreement on Sunday on the "Anne Will" talk show.

Normally, laws take several months to pass through the various parliamentary stages. However, the assembled Bundestag party leaders had assured Merkel on Monday, they would not insist on such regulations. The *Frankfurter Rundschau* described it as "An unparalleled procedure" and an "injury to democracy."

The representatives of the Berlin city government, which is administered by the SPD and the Left Party, agreed on the law in a special sitting of the Bundesrat. Normally, state representatives would abstain if one of the coalition partners were not in agreement.

Finance Minister Steinbrück (SPD) expressly thanked the assembled state premiers for their cooperation. "Such proceedings are only justified in unusual situations. It is a matter of repelling dangers, to prevent damage to the Federal Republic of Germany."

A massive gift to the financial elite

In the Bundestag debate, speakers from all parties complained about the financial conduct of the banks and their managers. Economics Minister Michael Glos (CSU) compared some of the financial players to the Mafia. Some banks had behaved like "competing Sicilian

clans," he said. But the Bundestag nevertheless decided, by an overwhelming majority, to hand over the massive sum of €500 billion (US\$642 billion) to these clans; by comparison, the entire federal budget for this year comprises €283 billion.

The sum of €400 billion will be used to underwrite interbank loans, guaranteeing commitments that are entered into up to the end of 2009. The lengthy duration of these guarantees, up to three years, means that the liability will only expire at the end of 2012.

A further €70 billion, which the Bundestag Budgetary Committee can increase to €80 billion, will be used until the end of 2009 to recapitalise the banks, by purchasing shares or buying up toxic debts.

Steinbrück and the government hope that they will never be called upon to redeem this €400 billion pledge, and are making only €20 billion available for failed credits. Since the government is borrowing the money for the rescue package using federal loans, government bonds or obligations, higher losses would unleash a chain reaction that could bankrupt the state itself.

"It is a gloomy picture that confronts the coalition in Berlin," noted *Der Spiegel* in its recent edition. "The effectiveness of their rescue package is anything but certain, and the real economy is threatened with a serious recession in the coming year." If the government has to find "the entire sum for the rescue package," the news magazine quotes the Berlin economist Henrik Enderlein, "it could reach the very limit of what can be tolerated."

In the opinion of *Der Spiegel*, the bottom of the financial crisis is still far from being reached. The magazine points to the toxic level of credit card debt in the US, which is estimated to quadruple in the coming year to US\$100 billion and which like the subprime mortgages has been bundled up and sold internationally. The same applies to auto loans used to purchase cars, "which were dispensed even more readily."

The situation is even more dramatic "in the global casino that is the insurance of business loans." The size of the market for so-called derivatives, such as Credit Default Swaps (CDS), has increased tenfold in the past four years to the inconceivable sum of €55 trillion. That corresponds to the gross domestic product of the entire world. Now, this bubble is also threatening to burst.

But "even if the world-wide rescue action for the financial industry succeeds," forecasts *Der Spiegel*, "the cost will be considerable. In order to finance the gigantic rescue packages, citizens will have to bleed. Depending upon the scenario, there could be rising inflation rates, higher taxes or an economic downturn with losses in incomes and mass unemployment for many years."

Contrary to the claims of the government, the establishment parties and the media that the €500 billion rescue package is something for which there is "no alternative" and that will repair confidence in the financial markets and "prevent damage to the German people," it is in reality a massive financial gift to the financial elite, whose orgy of enrichment is responsible for the present crisis and who will continue to make millions.

For this reason, comparisons with the 1968 emergency legislation, the emergency decrees of the early 1930s and Hitler's 1933 Enabling Act must be taken seriously. In the last weeks, it has "only" been the democratic rights of the Bundestag that have been trampled underfoot, and which readily agreed to its own disempowerment. But when *Der Spiegel* writes, "citizens will have to bleed," as is now generally accepted, that exports will collapse, the economy will sink into a recession, unemployment will drastically rise and that there will be protests against this, then the population will also come to feel the iron

hand of the state.

Secrecy

The law is just as undemocratic as the legislative process that brought it to life. Despite the complaints about bankers and financial managers, which even right-wing government representatives expressed, the law is designed to protect the interests of the financial elite and shield them from public scrutiny. Measures that could protect the real victims of the crisis—the unemployed, savers who could lose all their assets, house owners who face difficulty paying their mortgage—are not envisaged.

An "Institute for Financial Market Stabilisation" (FMSA) will administer the €500 billion fund. It will work behind closed doors out of the public gaze. The FMSA will be headed by a three-strong committee. These three people, whom the Treasury will appoint in agreement with the Bundesbank, will decide how to dispense the aid. Cases of fundamental importance will be decided by a five-member steering committee at the suggestion of the FMSA, comprising one representative each from the chancellery and the ministries of justice and economics, as well as the states.

At the insistence of the FDP, oversight of the FMSA will be by nine members of the Bundestag budgetary committee. However, they will meet in secret and are sworn to strict secrecy. Secrecy also applies to many of the regulations governing the fund, even in relation to parliament. The public will thus never be informed why and at what level individual banks will receive billions in funds from the treasury.

The law is also drawn up extremely vaguely. The most frequently quoted sentence reads: "The federal government can promulgate further regulations by means of a statutory order, which does not require the agreement of the Bundesrat...."

Thus, the law says nothing about the conditions for receiving state aid. Steinbrück has claimed that managers' salaries at banks that received assistance from the fund would be reduced to an annual maximum of €500,000. The state has also said it wished to influence bonus payments, payments to shareholders and business policy, as well as the granting of loans. But it is hardly likely to come to this. The Treasury has already established that all agreements concerning state aid will be made "bilaterally" and will be "different in each individual case."



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