

# German government adopts second stimulus package

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19 January 2009

Last week the German government adopted a second package of measures worth €50 billion designed to stimulate the economy. The main purpose of the measures advanced by the grand coalition government consisting of the Christian Democratic Union (CDU), Christian Social Union (CSU) and Social Democratic Party (SPD) is to divert working people in an election year and mask the true extent of the economic crisis and the attacks it will entail.

At the beginning of December, Chancellor Angela Merkel (CDU) rejected the introduction of a further stimulus package. At the CDU party congress she explained, "We will not take part in a senseless competition costing billions. That is not something we intend to do."

Just before Christmas, Finance Minister Peer Steinbrück (SPD) bristled at abandoning what he regards as his purpose in life--securing a balanced budget.

Now, in record time, the government has brought forward what it declares to be the "biggest stimulus package in the history of the federal republic."

The reasons for this reversal are the dramatic worsening of the economic crisis and the fact that 2009 is a "super election year," with a total of fifteen elections, including five state polls and a federal election in September.

According to provisional estimates by the Federal Statistical Office, Germany's gross domestic product in the last quarter of 2008 decreased by 1.5 to 2 percent, with a further decline in the economy expected for the current year. Exports, the main pillar of the German economy, collapsed in November, falling by nearly 12 percent compared to the previous month. Numerous companies face bankruptcy. According to the European credit management service Creditreform, the number of insolvencies in 2009 will rise to 35,000.

In view of exploding unemployment and vast numbers of workers whose work hours are being reduced, no party dares present itself to the voters in the upcoming elections without giving the impression that something is being done to moderate the crisis. Having made available €500 billion in November to bail out the banks, the federal government now fears a social explosion if it does not at least give the impression that it is doing something about the social impact of the crisis.

This second stimulus package is the result of fierce haggling

between the CDU, the CSU and the SPD. Each party has tried to present itself to its voters in the best possible light. This has produced a jumble of measures that will have virtually no effect on the crisis.

The package contains some financial concessions to those in the middle- and lower-income brackets. But these are so minimal that, in light of the social cuts of recent years, they take on more the character of a provocation than a benefit.

For example, the child benefit is being increased through a one-off payment of €100, something that will do nothing to relieve the poverty faced by large families. The SPD had originally demanded €200, but this failed because of resistance from the CDU. This measure will cost €1.5 billion.

A substantially higher sum is being proposed for car owners. Anyone buying a new car while scrapping an old one will receive a premium of €2,500. This measure will cost €1.8 billion. Additionally, auto manufacturers will receive €500 million toward the development of innovative propulsion technologies.

The subsidies for children and cars are so disproportionate that even an employers' association representative was moved to say, "For a child there is €100, for an old car €2,500. That shows what our country thinks about the future and about social questions."

At the insistence of the CSU, a lowering of taxes and social security contributions was agreed, which is being presented by the government as providing relief for those on low- and middle-incomes. In reality, the savings for those with average earnings are ridiculously small, while those with low incomes and those dependent on benefits get nothing. Only the better-off profit considerably from the lower tax rates, after the SPD dropped its original demand for an increase on the highest tax brackets.

The basic tax-free allowance will be raised in two steps by €340, to €8,004, with the entry-level tax rate sinking from 15 to 14 percent. Health insurance contributions, which were just increased at the beginning of the year, will be lowered on July 1 2009 by around 0.6 percent, to 14.9 percent--in equal parts for both employers and employees.

According to the chair of the CDU/CSU parliamentary group, Volker Kauder, an average family would thereby save €200 a

year in taxes and contributions. The SPD faction leader, Peter Struck, talked of €400 to €500 a year, including the €100 one-off child benefit payment.

For an average family comprising two adults and two children with a gross family income of about €45,000, the €200-€500 per year equates to merely €16-€41 a month. For poor families or single parents, the sum is significantly less. According to the press, a single parent on a small monthly income (€1,250) would save €86 this year, just €7.17 a month.

Do the CDU, CSU and SPD really believe that people can be fooled in this way? The negative impact of tax and contribution increases, cuts in social spending and the privatization of public provisions of recent years represents a multiple of the pittance now being given. Just the 2007 increase in value added tax of around 3 percent brings in billions to the government's coffers each year.

The unemployed have been driven into bitter poverty, particularly through the labor and welfare reforms of the "Hartz" laws. The paltry increase of €35 a month from July 1 for families on welfare will do little to lift them out of poverty.

In the meantime, many families are forced to rely on credit to meet their living expenses. And yet the leaders of the SPD and CDU-CSU have the audacity to stand before the TV cameras and boast that millions of Germans will profit from the new measures. For millions, the pittance offered in the stimulus package will simply be swallowed up by their debts.

The largest part of the stimulus package, over €17 billion, is being spent on infrastructure--educational facilities, roads and an expansion of the broadband network. Such investments are long overdue. Many German schools and universities are in a parlous state after being starved of funds through austerity measures passed by the states and municipalities over many decades. But the limited scale of the program is such that it will contribute little to moderating the overall effects of the crisis. The investments primarily benefit the construction industry as well as telecommunications and electronics firms.

The government is providing twice the amount of its €50 billion stimulus package for its €100 billion fund to bail out major banks and large companies. In addition, the cabinet has decided to allocate a similar sum in credit guarantees for large-scale enterprises.

The €500 billion rescue package for the banks carried out last year was supposed to have alleviated the so-called credit crunch, providing liquidity for the banks and corporations. But instead of passing on the funds they received in the form of credits to other financial firms or companies, the banks have used the money to bolster their balance sheets, filling up the holes they incurred through speculation, and to buy up their competitors.

Commerzbank alone received over €18 billion in the rescue package. It used this to finance the acquisition of Dresdener Bank, including the latter's toxic debts and losses.

Nobody has asked which bankers or brokers are responsible

for the loss of billions that are now being recovered with public funds. The biggest winner is the Allianz group, the largest insurance company in the world and previous owner Dresdener Bank. "Through the partial nationalization of Commerzbank, Allianz has raked in a fortune behind the scenes and at the expense of the public purse--in other words, the taxpayer," commented the *Süddeutsche Zeitung*.

The media hype about the second stimulus package serves to divert attention from the fact that the same banks and corporations that caused the crisis through their massive speculation and toxic debts are profiting from the crisis by pilfering the public purse.

The illusion is to be maintained through this year's elections, up to the Bundestag (federal parliament) vote in September, that everyone is in the same boat. But shortly afterwards, the working class will be presented with the bill.

The present grand coalition government has already laid down its plans. Using provisions in the Constitution, it will ensure that its successor is obliged to place the burden of the massive budget deficit resulting from the various rescue and stimulus packages on the backs of working people.

Already the first proposals for social cuts are making the rounds. The question of who will pay for the debts is "also a question of the contract between the generations," the chairman of the Bundestag budget committee Otto Fricke (Free Democratic Party) told *Bild* magazine. SPD deputy Rainer Fornahl told the same journal that he supported cutting pensions, saying it was important that all generations made a contribution in the economic crisis. The chief economist of Deutsche Bank, Norbert Walter, expressed his support for bringing forward the plan to raise the retirement age from 65 to 67 years.

Irrespective of its packaging, this second economic stimulus program represents a continuation of the government's policy of redistributing wealth from those at the bottom to those at the top. It is nothing other than a pact between big business and the government.



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