Merkel’s stimulus package: a pact with German big business

Dietmar Henning
13 January 2009

The current debate about a second German economic stimulus plan makes one thing clear: the federal government does not have the slightest intention to protect the population from the impact of the economic crisis.

When the international financial crisis began to threaten German banks last October, the government rushed to put together a so-called rescue package that gave banks access to 500 billion euros ($US 668 billion) worth of taxpayers’ money. To stave off the loss of billions for stockbrokers and speculators, this rescue package was drawn up under direct instructions from Josef Ackermann, chairman of the Deutsche Bank, and rapidly pushed through parliament. Not one of the silk-shirted financiers was called to account for the financial disaster.

It is quite another matter when it comes to the threat to the general population in the wake of the greatest economic recession since the 1930s. Following a torrent of bad news about the economy and job situation, the government merely dishes out placebos and seeks to play down the situation.

Last Thursday news agencies reported: “The worldwide economic crisis is hitting German industry with full force.” Media reports indicated that German exports in November 2008, compared to the previous month, had declined more sharply than at any time since the country’s reunification. According to a preliminary report from the Federal Office for Statistics, the seasonally adjusted value of exports in November was 10.6 percent below what it was in October. This constitutes the lowest figure since 1990, when statistics of this kind were first introduced. There was also a sharp decline of 11.8 percent in comparison with the export volume in the same month in 2007. The Office for Statistics regarded this as the most significant collapse since 1993.

At the same time it was announced that the number of those laid off and especially short-time workers is climbing dramatically. In December some 2,400 firms in the state of North Rhine Westphalia alone applied to introduce short-time work, according to the *Rheinische Post* newspaper, reporting on figures from the Federal Labour Office. Directly after its long production wind-down over the Christmas and New Year period, the Opel car plant in Bochum also scheduled short-time work for February.

Yet the federal government declared things were not really going so badly. In her new year’s address, Chancellor Angela Merkel declared: “I’m convinced that our social market economy will come out of the present economic crisis stronger than before, because it has always striven for a just balance of economic freedom and social compensation against the excesses of the market.”

Even conservative journalists reacted to this with alarm, fearing that the coalition parties were underestimating economic and social developments. Under the headline, “Dangerous Power Games in Berlin,” Sven Afhüppe wrote in the *Handelsblatt* newspaper: “Whoever attentively follows the debate within the government about a further economic stimulus package does so with increasing concern. Leading figures in the grand coalition have apparently so little understood the seriousness of the economic situation that they seem to take pleasure in entangling themselves in party political games.”

However, the journalist’s explanation that Merkel, the pastor’s daughter from eastern Germany, knows too little about economics and that the SPD (Social Democratic Party) dares not face up to reality make up only half the truth. The gravity and extent of the crisis are well understood in the chancellor’s office.

Painting relatively rosy pictures serves to lull the population to sleep while the government is making a pact with the business world. Above all, the coalition government is determined to prevent the coming elections—five state and eight municipal elections are scheduled this year, as well as the European Union and German federal elections—from taking place in a climate of radicalisation and increasing struggle against unemployment and social cutbacks.

A study of the economic stimulus package reveals the single-mindedness with which the governing parties insist upon a redistribution of wealth in the interest of the business world and the rich at the expense of the population at large.

At the heart of the programme—referred to as the “Growth and Stability Pact” by the Social Democrats and the “Pact for Germany” by the Christian Democratic Union and Christian Social Union (CDU-CSU)—is a so-called “emergency parachute” for firms. The SPD and the right-wing parties are prepared to grant state-backed guarantees to businesses that can no longer obtain credit from banks because of the financial crisis. Accordingly, existing government debt guarantees are to be extended. The CDU’s “Erfurt Declaration” designated large and middle-sized firms as beneficiaries of such assistance.

Following the failure of the government’s 500 billion euro bailout programme for the banks to ease the credit crunch, the government is once again making available billions of euros of tax-payers’ money to provide firms with credit.

At the same time, companies operating short-time work schemes will not have to pay social insurance contributions. In their first economic stimulus package, the CDU-CSU and the SPD decided on an extension of 18 months to the period of entitlement to short-time work allowance. Now businesses currently paying the full extent—including the employer’s share—of social insurance contributions in cases of short-time work will receive financial relief. The SPD has even recommended that these firms should be completely free of any obligation to contribute if employees involve themselves in further training during short-time work contracts. The right-wing parties also want to scrap this coupling with further education.

The SPD and CDU-CSU claim this kind of financial relief for businesses introducing short-time work is an important step in the safeguarding of jobs. In reality, the introduction of short-time work by many firms constitutes the first step towards further sackings.

In contrast to the rescue package for the banks, that allows the financial aristocracy virtually unrestricted access to the public treasury, the second economic stimulus programme will be linked to a constitutional limit on state debt. At the insistence of Finance Minister Peer Steinbrück (SPD), who recently described a second economic stimulus programme as “a waste of money,” leading members of the governing coalition have agreed that the proposed expenditure will have to be reimbursed.

Baden-Wurttemberg’s prime minister, Günter Oettinger (CDU) and SPD federal parliamentary fraction leader, Peter Struck, want to ensure that new borrowing will not be possible without a binding commitment to a plan for the scheduled repayment of debt. This means that the current expenditure of 50 billion euros will be followed by corresponding cuts in expenditures in the coming year.

The parts of the fiscal programme supposedly entailing “citizen’s relief” are in every instance a mere sleight-of-hand. “Thanks to the structural reforms associated with the slogan ‘Agenda 2010,’ we are well prepared for the imminent struggle; better than many other countries,” runs the SPD strategy declaration.

Indeed, after years of sharp cuts in public expenditure and social welfare, measures are now being proposed which, in view of the catastrophic economic situation, amount to the proverbial, “snowball in hell” and—as in the case of the long overdue investment in public infrastructure—were already long planned and are now merely being brought forward.

Between 10 and 14 billion euros is to be paid into a fund by the federal government, which is to commit itself over the coming two years to, among other things, the redevelopment of kindergartens, schools and sports fields. Numerous bankrupt towns and cities, currently submitting to financial supervision, will also receive money for investments. Measures undertaken by the former Social Democratic-Green coalition government have led to a massive depletion of municipal finances and destruction of municipal jobs through the privatisation of basic services. Now private service providers are to be subsidised from taxation resources.

The same pattern can be seen in many of the SPD’s other recommendations. It proposes that the special employee health insurance contribution of 0.9 percent—first introduced by the SPD and the Greens in July 2005—should be financed through tax resources. However, the CDU and CSU strongly object to this and recommend instead a 0.5 percent reduction in contributions for both employer and employee.

After a great deal of haggling, all the parties have reached general agreement on the issue of taxation. It seems that the current basic exemption rate before tax is paid of 7,644 euros is to be increased to 8,004 euros. The issue of any change to basic tax rates remains controversial. The CDU-CSU wants to provide increased tax relief to middle-range incomes, while the SPD proposes a reduction of the lowest tax rate to under 15 percent, claiming that the resulting minimal financial relief for workers with small incomes would increase their buying power and stimulate the economy. The CDU had originally made a similar recommendation, but the CSU opposed it.

The SPD also wants to raise the top rate of taxation on salaries beginning at 125,000 euros (250,000 euros for couples) from 45 to 47.5 percent for a period of two years. During the seven years of SPD government under Gerhard Schröder, the top rate of tax was reduced from 53 to 42 percent. Partly with a view to future cooperation with the FDP (Free Democratic Party), the CDU vehemently rejects increasing taxation for top earners. “That’s out of the question,” stated Chancellor Merkel to the *S?ddeutsche Zeitung* newspaper.

The plea from SPD Chairman Franz Münterfering not to allow the fiscal stimulus package to fail also demonstrates that the SPD has included taxation of the rich among its proposals purely out of tactical considerations related to the coming elections.

The same fate seems to be overtaking the SPD’s recommendation concerning a one-off payment of 200 euros for every child. This has met with considerable opposition from the right-wing parties. According to the *Süddeutsche Zeitung*, CDU-CSU parliamentary fraction Chairman Volker Kauder told the coalition meeting on 5 January that, “With this money people will only buy Japanese flat screen television sets.” Peter Ramsauer, CSU state fraction leader, based his remarks on a comment from Foreign Minister Frank-Walter Steinmeier, the SPD’s chancellorship candidate. A few months ago Steinmeier rejected direct payments to families, reasoning that parents would only use such money to buy beer and cigarettes.

The slight increase in child allowance for Hartz IV welfare recipients, like the introduction of a cash bonus for the scrapping of old motor cars as practised in Italy and France, only serves to veil the real character of Merkel’s “Pact for Germany.” In reality it is a pact between the government and business management against the majority of the population.