What lies behind the change of leadership in the German Economics Ministry?

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Behind the surprise resignation last weekend of German Economics Minister Michael Glos (Christian Social Union—CSU), and his hasty replacement by CSU member Karl Theodor zu Guttenberg, is more than the much-postulated thesis that Glos had had enough of a post that he was reluctant to take up in the first place. In fact, the change at the top of the ministry is closely bound up with an offensive by German business federations, which are pressuring for their interests to be taken far more seriously as the international crisis deepens dramatically.

For some time, Chancellor Angela Merkel has been under attack from business groups inside her own party, the Christian Democratic Union (CDU), as well as the CSU. She is accused of neglecting business interests and at the same time being subservient to her coalition partner in the government, the Social Democratic Party (SPD). The chairman of the small business and economics federation of the CDU, Josef Schlarmann, publicly attacked the chancellor last summer for abandoning key aspects of the party's economic programme. Behind Schlarmann's criticism at that time was the introduction of a minimum wage for certain branches of industry.

Such criticism has escalated as the economic crisis intensifies. According to German business and banking lobbies, the reaction of the German government to the crisis has been much too slow and half-hearted. Business federations accuse the chancellor of paying too much heed to her finance minister, Peer Steinbrück (SPD), who was initially opposed to any sort of stimulus programme and later insisted that any assistance be restricted to a "mini programme."

According to German business lobbies, the €50 billion stimulus programme II, agreed to in January, makes far too many concessions to public opinion, which is opposed to any programme restricted to a massive bailout for finance speculators at the taxpayers' expense. The country's economic problems cannot be overcome simply by providing a few thousand euros for citizens to scrap their old cars plus a small extra payment for child benefits, such business interests declare.

The business federations are urging a change of course. They are demanding massive state aid for companies and banks in line with measures already adopted in the US and Great Britain. Instead of making money available for a merely symbolic increase in child benefit payments and investments aimed at reviving consumption, they are insisting that the state assume responsibility for all of the banks' "toxic wastes" through the creation of "bad banks"—thereby shifting the burden for the banking crisis entirely onto the backs of taxpayers. The business lobbies are vehemently opposed to any semi-nationalisation or restrictions being imposed upon their institutions similar to those imposed on Hypo Real Estate and Commerzbank.

Following a number of victories in state elections (Bavaria and Hesse), the free-market Free Democratic Party was able to take large numbers of votes away from the CDU and CSU. Since then, the business lobbies of the latter two parties have become increasingly panic-stricken. An initiative was then taken by the new head of the CSU, Bavarian Prime Minister Horst Seehofer, who was formerly associated with the social reformist wing of the CSU. It was Seehofer who insisted on the tax cuts demanded by business interests, which were then included in the stimulus package II—against the express wishes of Merkel and Finance Minister Peer Steinbrück (SPD).

At the same time, Seehofer undertook a number of attacks against Economics Minister Glos, who belonged to his own party. While Glos supported the interests of the business associations, he was regarded as too weak a figure to stand up to Merkel and Steinbrück. In the end, Glos finally threw in the towel.

After his resignation, Glos bitterly complained that he had been mobbed by the German chancellor. According to a report in the *Münchner Merkur*, Glos revealed to a meeting of the CSU regional committee that she had always listened to Finance Minister Steinbrück while seeking to exclude him, whom she described as stupid. Glos said Merkel had deliberately ignored him and even questioned his ability to be economics minister. Inside the CDU, the impression was encouraged that Glos was "too stupid to read a note."

According to the *Münchner Merkur*, Glos had thought long and hard over his resignation. The decisive issue for him was the discussion over the expropriation of banks. As a cabinet member, he was not prepared to share responsibility for such a step.

This makes clear that the much-cited "lack of trust" between the economics minister and the chancellor had nothing to do with the fact that she was the daughter of a Protestant pastor from former East Germany while Glos is a Bavarian Catholic. Instead, economic issues were the primary issue. Glos was under direct pressure from business and banking interests, which demanded more access to the public purse, while the chancellor and the Treasury applied the brakes.

Both Merkel and Steinbrück were worried, on the one hand, that social opposition could develop explosively if they simply handed out billions to the banks and big companies. On the other hand, they were afraid that any uncontrolled expansion of subsidies to business interests would drive up the country's indebtedness and in turn threaten the European stability pact and even the Eurozone itself.

Within Europe, a race for the provision of subsidies and subventions has begun by governments that regard the US stimulus programme as a threat. Heads of European governments are warning of "distortions" to free-market competition through the generous subsidisation of American companies by the US government and protectionist measures demanding "Buy American!" The German economy is particularly vulnerable due to its heavy reliance on exports.

The German automotive industry reacted with shock to the announcement on Monday by the French government that it was propping up Renault and Peugeot to the tune of €6 billion. The German business newspaper *Handelsblatt* wrote that after Great Britain and the US, France is now the third country to bail out its automotive industry with huge subsidies. The paper then cited the managing director of the German automotive federation, Klaus Bräunig: "We are against competition-distorting measures in Europe and elsewhere—and we do not want an international subsidy race."

However, the race is on and can barely be stopped. At the same time, business associations are aggressively raising their list of demands. In this respect, the change in the German Economics Ministry represents a clear political shift to the right.

The new economics minister differs fundamentally from his predecessor. Just 37 years old, Karl Theodor zu Guttenberg is the youngest member of the cabinet, comes from a well-known aristocratic family, speaks several languages, has undergone a rapid ascent in the CSU and was for a number of years an investment banker in New York.

Brimming with self-esteem at his first press conference, he declared that he wanted to "lay down markers," despite the fact that his tenure in office is only guaranteed until the next Bundestag election due this autumn. In light of the finance and economic crisis, "rapid changes" were necessary, he said. "We now have a phase in which energy and passion for economic policy are in demand," Guttenberg told journalists.

His appointment has already been praised by business leaders. According to Dieter Hundt, president of the Employer's Federation, Guttenberg is "the best suitable choice" for economics minister. He has international experience and contacts, which are important for overcoming the global crisis, Hundt said. Similar comments came from leading representatives of the Federal Association of German Industry (BDI) and the German Chamber of Commerce and Industry (DIHK).

Hundt also singled out Guttenberg as a man who is "thoroughly acquainted" with the problems of small businesses based on his own business experience. BDI President Hans Peter Keitel urged Guttenberg to "use his energy to highlight the power of the free market." The BDI hopes to see from the new minister "a clear and reliable regulatory policy and impulses for a holistic and trend-setting economic policy."

The change of leadership in the Ministry of Economic Affairs is also directly bound up with the election campaign preparations of the CDU-CSU for the European election in June and the federal election in September. Both the CSU and layers in the CDU intend to run an election campaign that concentrates on national economic interests.