Germany: European elections pave way for department store bankruptcy

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Only one day after the European elections, the German government tossed the major retailing chain, Arcandor/Karstadt, into bankruptcy. The grand coalition government of the Christian Democratic Union/Christian Social Union (CDU/CSU) and Social Democratic Party (SPD) waited for the results of the European elections before refusing Arcandor critical state aid, imperiling the livelihoods of tens of thousands of workers.

Arcandor AG is a holding company located in Essen. It includes the mail order and Internet shopping business Quelle, and companies offering tourism services. The group's best-known asset is the department store chain Karstadt, whose first store opened in 1881 in Wismar. In 2005, the Arcandor group had about 68,000 employees and sales of €15.5 billion.

Arcandor's fate was sealed by the poor election results of the SPD and the shift by a section of the business wing of the CDU/CSU to the Free Democratic Party (FDP). In the election's wake, the decision not to provide financial aid to Arcandor received unanimous backing in the cabinet, with support across the coalition, including from Chancellor Angela Merkel (CDU), Vice-Chancellor Frank-Walter Steinmeier (SPD) and economics minister Karl-Theodor zu Guttenberg (CSU).

The "Germany fund," which provides government loans to companies experiencing difficulties due to the financial crisis, announced June 8 that Arcandor did not fulfill the conditions for state aid and imposed a 48-hour ultimatum for it to exact further concessions from the group's creditors, owners and landlords. These efforts proved fruitless and the company was forced into bankruptcy court.

After the insolvency of Karstadt, prominent politicians from all parties, trade union leaders and many media commentators complained that the actions of the owners—above all the large shareholders Sal. Oppenheim Group and Quelle heiress Madeleine Schickedanz—were against the requirements of the German constitution, which stipulates: "Property brings obligations. Its use should at the same time serve the general good." Thus Merkel said that the insolvency was "inevitable," because the assurances of the owners and creditors to support state assistance were "absolutely not sufficient."

What hypocrisy! When financial investors and bank managers gambled away billions, the government immediately jumped to their side. A bank rescue package worth €500 billion was established; Hypo Real Estate got over €100 billion and was nationalized. Those responsible for the crash continued to receive their bonuses and other compensation; none were called to account.

Since the onset of the economic meltdown, the CDU/CSU and SPD have done everything to prevent the financial elite from being made to pay for the crisis they had caused. The government has granted the banks free access to the treasury, while calling out "stop thief" when it concerns a few millions for social programmes benefiting working people. Now, when 56,000 jobs are thrown into jeopardy as a result of the Arcandor bankruptcy, the politicians shrug their shoulders and point to the inviolable laws of the market. This policy is in fact no accident: the mass layoffs that result from the Arcandor bankruptcy will be used as a lever to prepare a new wave of layoffs and drive down the wages and conditions of workers across Germany.

An article in *Zeit on-line* June 10 cast doubt on the government's stated reasons for refusing any financial assistance. Under the headline, "Politicians out of control," Gunhild Lütge writes, "With threadbare reasons, politicians sent Arcandor into bankruptcy. Now the company is being torn apart. Will other businesses be left on their own?"

Responding to statements by Guttenberg and Merkel that creditors and owners had not shown enough commitment, Lütge wrote that neither politician had called for the owners to put up any concrete sum. Then Lütge points out the following circumstances: "Making the rebuke that creditors had not shown enough responsibility has raised the temperature somewhat. Large creditors include Commerzbank and BayernLB. The federal government holds a 25.1 percent stake in Commerzbank. One of the main shareholders of BayernLB is the state of Bavaria. In short: Merkel and Guttenberg are deploring the behaviour of banks, in which the state is heavily involved."

These vested state interests acted in league with rival corporate interests in forcing Arcandor's bankruptcy.

One of the participants operating behind the scenes in this affair is Eckhard Cordes, chairman of METRO group, which owns the Kaufhof department stores, the main rivals of Karstadt. Cordes regards the crisis of Karstadt as a welcome opportunity to remove a competitor, and was one of the first to call for Arcandor's bankruptcy. Using public funds to keep it afloat represented serious interference into the process of free competition, he fumed.

Cordes is regarded as one of the leading figures of German big business. Until 2005, he was responsible for the Mercedes car group at DaimlerChrysler and was seen as a pupil of CEO Jürgen Schrempp, who resigned the same year. After a brief interlude at Haniel, in 2007 he became chairman at METRO, which also owns Kaufhof, Media Markt, Saturn, Real as well as other department stores and cash-and-carry stores.

But Cordes is also politically connected, holding the vice-presidency of the CDU's Economic Council. Working in close collaboration with economics minister Guttenberg (CSU), he was significantly involved in the decision to let Arcandor go into bankruptcy. In mid-May, Cordes and Guttenberg met officially in order to mark out the battle plan. The business-friendly *Rheinische Post* reported on May 19, weeks before Arcandor's bankruptcy, that their meeting "concern[ed] the merger of the operational business of the two department store subsidiaries of METRO and Arcandor, Kaufhof and Karstadt proposed by Cordes."

Cordes's takeover strategy consists of merging the Kaufhof department stores with selected branches of Karstadt. METRO could then close all the unprofitable branches of Karstadt, and some branches of Kaufhof. With only the best branches remaining, which also includes the upmarket KaDeWe store in Berlin, the profits to be derived from a slimmed-down workforce could be considerably increased. METRO group would thus create a monopoly among German department stores.

The results for workers and communities would be disastrous. Under a merger, at least 40 of the total 206 department stores would be closed—10 Kaufhof and 30 Karstadt branches. At least 5,000 full-time jobs would go. However, this would only be the beginning, and a far greater loss of jobs is likely. The remaining branches would certainly face a drastic cut in personnel. Home shopping company Quelle, belonging to Arcandor, and its 15,000 employees already face serious difficulties. Deutsche Post, which delivers Quelle's mail-order sales, regards 4,000 jobs in acute danger as a result.

The Kaufhof department store branches currently contribute little to the gross income of the METRO group. The company makes its money above all from its cash-and-carry brands, the METRO markets themselves and electronics chains Media Markt and Saturn.

But Cordes has a further goal. He told broadcaster *Zweite Deutsche Fernsehen* that "we want to build a strong department store company. We have a short and a medium-term goal of creating this new entity, and I believe, and here I am being completely daring, that there could be the possibility that such a new enterprise could be floated on the stock exchange." Moreover, according to financial daily Handelsblatt, Cordes already seems to have forged plans to sell off the newly-formed department store company to another buyer. And a name has been mentioned: the Italian department store entrepreneur Maurizio Borletti is already in contact with Cordes, and is said to have the support of an as yet unnamed financial investor.

Whatever becomes of the major German department stores, the bankruptcy of Arcandor has made one thing clear: In their struggle to defend their jobs, workers at Karstadt and Kaufhof cannot rely on any of the government parties—or their union, Verdi. The trade union Verdi, whose representatives sit on the supervisory board of Karstadt, have supported the dismantling of thousands of jobs over the years. It has preached that by forgoing wage increases, giving up Christmas and holiday pay and other benefits, workers could secure their jobs.

To the last, all Verdi has done is demoralise Karstadt workers by organising toothless actions. With the official support of the Karstadt management, it recently organised petition drives and vigils in deserted city centres in front of the closed branches.

Verdi has boycotted every serious struggle to defend jobs and wages—at Deutsche Telekom, in the public services and at Berlin's urban transport company. Now with the largest corporate failure in German business history, the trade unions' policy of "social partnership" has reached a new all-time low.

Anyone who believes that Verdi would draw any lessons from the bankruptcy of its politics need only listen to what union vice-chair Margret Mönig Raane said after a meeting with Economics Minister Guttenberg and Labour Minister Olaf Scholz (SPD): "Whatever can be done by a ministry, is happening both in the Labour Ministry and in the Economics Ministry." One can have different views about the insolvency, she said, "But I think it is good that the labour minister and economics minister have taken time" to consider the matter. A "task force" was agreed upon, with which Guttenberg also wants to cooperate.

Arcandor workers should understand this as a threat. Only a determined struggle and a nationwide strike, organised by workers independently of Verdi and based on an international socialist political perspective, can create the conditions for a principled fight to defend all jobs.