

German government rushes through €500 billion rescue package

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In her statement to the German parliament on Wednesday, Chancellor Angela Merkel (Christian Democratic Union, CDU) expressly defended her government's €500 billion "rescue package" for the banks. While the level of government endorsement and financial assistance made available are extraordinarily high and of a "so far unknown order of magnitude," they are at same time "unavoidable," Merkel said.

The chancellor stressed that the size of the rescue package had to be seen in connection with the extent of the crisis. The world economy is currently experiencing its most severe test since the 1920s. In the past week money markets had practically come to a halt and the sharp decline in stock market prices could have started a "fatal downward spiral."

In the course of the past few weeks, the "urgently necessary confidence between finance market actors" had continuously eroded, Merkel maintained. Finance institutes were extremely reluctant to lend to one another. Mutual distrust meant that the banks were "nearly completely paralysed with unpredictable consequences for growth and jobs," and it turned out that the state was the only institution that could restore confidence between the banks.

Merkel went to great lengths to present the billions being placed at the disposal of the banks as "in the interest of citizens." On a number of occasions she repeated that the aim of the finance package was not to rescue individual banks, but rather "to protect citizens." The chancellor continued, "We are thereby fulfilling our obligation to protect the interests of the German people." As far as the state was concerned, there would be no "payments for the banks without something back in return."

Merkel announced a rigorous intervention by the state in this respect and termed the multibillion-euro gift to the banks a step on the way to creating "structures for a humane free-market economy."

It was notable that the chancellor never provided any details regarding her government's plans for "rigorous intervention." Two weeks ago she had demanded that irresponsible managers be made accountable for their actions. German Finance Minister Peer Steinbrück (Social Democratic Party, SPD) also recently called for a cap on managers' salaries to ensure they did not exceed €500,000 a year.

In Merkel's government statement, however, there was no mention of such measures. Not a word was spoken about the criminal activities of the financial elite or possible measures against those responsible for the crisis. No mention was made of any limits to salaries and bonuses; nothing was said about the role of Deutsche Bank Chairman Josef Ackermann, who last year took home €14 million and heads the informal government committee that drafted the rescue plan for the banks.

Instead, Merkel invited credit and financial interests to take part "constructively and critically" in reforming and stabilizing the finance system.

Merkel then announced that the government sought to enlist the services of a team of experts to compile suggestions for new rules for the financial markets. Her proposal for chairman of the new committee was Hans Tietmeyer, the former president of the Federal Bank. Merkel praised

Tietmeyer, declaring that he has "a great deal of experience."

Merkel neglected to mention one important fact: Tietmeyer is a member of the supervisory board of the finance company Hypo Real Estate (HRE), which was rescued at the beginning of October with a €50 billion bailout package. When a number of parliamentary deputies pointed out this fact, Tietmeyer withdrew from the "team of experts."

What remains clear is that the "team of experts" is comprised predominantly of bank managers and will only serve to reinforce the influence of the banks on the process of government decision-making.

The banks dictate

Until now, the German banks have largely dictated the actions of the government in the financial crisis.

Two weeks ago Merkel and Steinbrück rejected a US-style rescue package in favour of a "case by case" approach. Leading bankers were outraged and demanded the government agree to a rescue plan, which allowed them virtually unrestricted access to the resources of the German treasury. Bank boss Ackermann exerted massive pressure in order to implement the interests of high finance.

A recent edition of *Der Spiegel* magazine reports on how the billions-strong deal for the rescue of HRE came about. Representatives of Germany's leading banks demanded that the government take over the losses and toxic credits of Germany's largest real estate finance house. The government, however, wanted to restrict its support to a state endorsement and demanded that the banks become involved.

"On two occasions the talks threatened to collapse," *Der Spiegel* reports. The banking federation had begun to make preparations for the insolvency of HRE. "The turnaround came following a telephone call between Steinbrück and Ackermann shortly after midnight. The banker made clear to the finance minister that the collapse of HRE would lead to the possible breakdown of the entire mortgage bond market the next day." In order to increase pressure on the government, Ackermann stressed that HRE is "the most reliable source for the refinancing of German banks." Its collapse would "set an avalanche in motion" that nobody would be able to control.

Faced with such extortion the German government caved in and Steinbrück accepted the banks' conditions. *Der Spiegel* describes the dramatic hours in the early morning of October 6 as follows: "At 2 a.m. the Asian stock exchanges opened, the bank had to be saved before this time; the Irish subsidiary (of HRE) had to be reintegrated into the process of monetary circulation. At 1:30 a.m. Merkel and Ackermann spoke on the phone again and sealed the deal."

The government assumed responsibility for an endorsement totalling €26.5 billion, while the banks were allowed to endorse just €8.5 billion.

The latest rescue plan agreed by the German cabinet on Monday, involving government endorsements and state subsidies amounting to a total of a half a trillion euros, confirms that the government has delivered itself completely into the hands of the banks. Statements by the chancellor and finance minister that no important banks would be allowed to go bankrupt, while at the same time they would exert no influence on the operational business of the banks, make the government a hostage of the banking community.

The banks, which lack any sort of overview of the extent of the toxic credits on their balance books, can now reveal such debts and rely on the government to make billions available to bail them out. The government has committed itself to pay out almost unlimited sums of taxpayers' money.

Bank managers, who are elected by no one and are only answerable to their clientele and the drive for profit, are dictating the financial policy of the government. They are not only determining the content of the rescue plan, which places hundreds of billions of euros at their disposal, they are also sweeping aside basic democratic rights and parliamentary procedures.

The emergency procedure by which the €500 billion package has been swept through parliamentary committees this week evokes memories of the emergency decrees brought into force by the government of Heinrich Brüning following the German bank crash of 1931. The emergency laws introduced by Brüning suspended democratic procedures and smoothed the path not only for the semi-dictatorship of Papen and Schleicher, but also their successor--Adolf Hitler.

A law that limits the financial capacity of not only the current government, but no doubt of many future governments--and which implies drastic economic measures affecting the lives of millions--is being rushed through parliament in only five days without any serious discussion.

The German constitution stipulates precise time limits for the passing of a bill in parliament. According to the constitution, the government must first present its bill to the upper house of parliament, which then has six weeks to arrive at a judgement. This period can be shortened or extended if necessary by three weeks at a time.

Following declarations on the bill from the chamber of states and a statement of justification for the measures from the government, the draft then goes to parliament. Following a first reading of the draft and committee consultations, the bill can then be forwarded for a second and third reading. The upper house then has three weeks to make the bill law.

This procedure can only be shortened with the express agreement of all the parties represented in the parliament, which agree in this special case to sacrifice their constitutional rights. This is why, following the cabinet meeting on Monday, the chancellor immediately consulted with the chairmen of all of the parliamentary groups and received from all of them--including the Left Party--their agreement to the emergency procedure.

In her government statement yesterday, Merkel expressly thanked all of the parliamentary groups for their close and trusting cooperation. Now the finance package is to be hurried through all three readings of the Bundestag (parliament), put to a vote in the upper house, and signed into law by the federal president by this weekend.

Parliament has thereby voluntarily ceded its control function in a matter in which the interests of the population are directly concerned. This self-castration by parliament has huge consequences. It encourages this and future governments to implement laws-judged to be urgent and indispensable--over the heads of parliament and the electorate in the form of emergency decrees.

The Left Party has played a particularly cynical role in the passage of the German banking rescue plan. It could have stopped the law if it had made use of its right to veto and had insisted on defending the democratic rights of the parliament. It did no such thing.

Now the party leadership has announced that its deputies will vote against the measure in the Bundestag. This is, in fact, a symbolic gesture because the bill is assured a majority by the other parties. If the government were dependent on the votes of the Left Party, there can be no doubt that the party would vote in favour. This is made clear by the statements of many prominent representatives of the party, who have affirmed the package in principle.

Even before the details of the plan had been announced, Left Party leader Oskar Lafontaine appeared on television on Sunday and described the measures dictated by the banks to be "unavoidable and correct."

The party's national organiser, Dietmar Bartsch, criticized the hesitation of the government in concluding the package and accused it of having "slept through the crisis somewhat." He then went on to praise the rescue package, saying, "The decision has finally been taken for the necessary systematic regulation of the banks in Germany."

Herbert Schui, a speaker for the Left Party in the Bundestag, told the newspaper *Neues Deutschland*, "The \$700 billion US rescue plan, and now the plan submitted by the chancellor, are better than no solution."

The spokesman on financial affairs for the Left Party parliamentary group, Axel Troost, even sought to claim authorship for the rescue program. In an October 14 statement, he criticises the behaviour of the government, but then adds, "A few weeks ago the Left Party suggested a contingency fund for private banks. All other parties rejected the motion on September 24 as unnecessary..."

When the extent of public opposition to the rescue plan became clear, the party leadership changed their tactics. Now Lafontaine has announced that his parliamentary faction will vote against the government bill on Friday. This is typical. When the Left Party could make a difference--e.g., in the emergency procedure to push the bill through parliament--the Left Party supports the government. When the government is no longer dependent upon their votes they vote in opposition in the hope that they can hide their tracks.

Politics, however, has an inexorable logic. The Left Party could have blocked the law on Monday. It could have also called for a demonstration against it. But this exactly what the party does not want. It regards the measures to rescue the banks--in the words of Lafontaine--as "inevitable and correct." On this basis it has joined the government coalition. Neither its latest criticism of the measure, its demand for a supplementary economic program, nor its call for the restriction of managers' salaries can hide the fact that it is firmly in the government's camp.



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The duplicity of the Left Party