Germany

The Autumn of Our Discontent Has Arrived

by Rainer Apel

The sudden eruption of nationwide protests in France, against the rapid rise of fuel prices, during early September, has sent a message across Europe, about what is in store as the Summer draws to a close. Anyone who drives an automobile is boiling with rage over the 10% increase of fuel prices within less than a week, in late August-early September.

What the French government is doing—namely, trying to buy off protests by cancelling recent tax increases, while not interfering with the speculative markets, the main source of evil (see article in this section)—is an approach that the German government of Chancellor Gerhard Schröder is intensely committed to as well. This indicates that the German government will try to deal with the coming crises in the same way that it has dealt with crises in the past. But, the cancerous speculative financial bubble is eroding the ability of governments to settle conflicts with their usual tricks.

Tax Cuts for Banks and Insurance Firms

During the weeks before the Summer recess, the markets generated pressure on the German government (and other European governments, as well) to give big tax cuts to banks and insurance companies, to help them transform their industrial stocks into financial liquidity that could be pumped into the markets to keep the speculative bubble aloft. The expectation of several hundred billion deutschemarks, which thereby would be raised by selling "obsolete" industrial stocks, would meet some of market's urgent demand for liquidity.

This script was adopted by the government, which to the surprise of many, moved up the introduction and debate on the tax-reform package, in order to get it passed before the Summer recess. The potential veto by some of the German states that are governed by the opposition Christian Democrats, was bought off with concessions in the range of DM 7 billion, including subsidies to regional infrastructure projects, and unemployment and job training programs. Berlin has taken an adventurist approach here, because it thinks that it will easily compensate for the concessions by making extra money on the financial markets, from trading with the extra funds from the sales of stock that are going to be invested back into the markets. The Finance Ministry is trading with derivatives, and it expects to draw on the net profit that the central bank will make, with similar operations on the global financial markets. The bill for that will come due in the not-too-distant future, when the predictable investment crunch from that giant transformation of banks' shares in the industry, will be felt in the form of production cuts and layoffs. But, still in late July, the government was confident that it had "solved" one big problem in this way.

But the next problem is already here. It resembles the situation of Autumn 1999, although on a smaller scale, when illegal operations by Deutsche Bank and other banks, extracting funds from the Philipp Holzmann construction company, created a hole of approximately DM 2.4 billion that could not be filled. The banks decided to let Holzmann, Germany's second-largest in that sector, simply go bankrupt. This decision sparked a wave of labor protests, and also a public debate on the need for banking re-regulation. The Chancellor himself flew to Frankfurt to negotiate an emergency deal with the banks so that they wouldn't let Holzmann go bankrupt, giving them some DM 250 million out of government funds—and to calm an enraged public, as well as to dampen the debate about re-regulation.

All of that happened during the end of November 1999. Only ten months later, the Chancellor had to intervene a second time, because another deficit of DM 150 million—just for the month of September 2000—had been discovered at Holzmann, which supposedly had been "saved."

In early September, the Chancellor was forced to intervene along several other fronts at the same time. For one, labor raised objections against the government's plans to use all DM 99 billion raised in the recent state auction of new-generation mobile phone licenses, for servicing old debt. At the same time, the labor unions told Berlin that its plans for pension reform, to shift from exclusively state-run pensions to (speculative) private pension funds, were unacceptable. And, labor is also calling for a halt in public health budget cuts, and for the dismissal of Health Minister Andrea Fischer, a member of the Green party.

Banks and investment funds expect the pension reform to release another several hundred billion marks, unfrozen from state pension funds that are not permitted to speculate, to then be used for speculative tradings. As the pension reform is vital for the markets, it is, consequently, vital also for the pro-market government. But, the government needs the votes of the Social Democratic Party members of parliament, two-thirds of whom are controlled by the labor unions. In order to achieve that, Chancellor Schröder has offered to cancel the same indexation system for pensions, which he had introduced only a year ago.

The government's plugging one hole after another will not work for much longer: The drastic rise in fuel prices has already provoked calls from among labor unions, that either Berlin should offer additional tax rebates to workers who commute by automobile, or face strikes for bigger wage increases, to compensate for the fuel price increases. Wage hikes will put pressure on the government to pay pensioners more as well, so that a new budget hole will soon emerge.