Now German Government Must Act on the Economy

by Rainer Apel

Not untypically for the German political establishment, the real economic situation was not much at the center of the recent election campaign, and alarming news about the banks and the economy was suppressed. But less than two weeks after the Sept. 22 election which returned Gerhard Schröder to the Chancellor's office, the reality of economic depression is knocking at the Germans' doors, again; it shows an awesome picture that fully corroborates what the LaRouche party, the Civil Rights Movement Solidarity (BüSo), alone among the political parties, told the voters during the campaign. A new meltdown on the German stock market beginning immediately after Election Day, compelled Deutsche Bank's chief economist Norbert Walter to admit on Sept. 30: "This is a crash."

The first, preliminary data on the performance of the German economy and stock market during the third quarter already portray the German stock market index in its worst decline since 1959: –37%. Nine out of the 30 DAX titles were at least cut in half during the third quarter, including such leading names in the world of German banking and insurance as Allianz, HypoVereinsbank, Münchener Rueck, and Commerzbank. Four of the DAX titles (Deutsche Telekom, Infineon, Epcos, MLP) have lost more than 90% of their value since the Spring 2000 peak. On Oct. 7, rumors about grave liquidity problems and derivatives losses at Commerzbank sent its stocks down to the lowest level in a decade. For shareholders, the third quarter of 2002 has been another three months of disasters and losses—200 billion euros (about $200 billion) have been recorded in losses at the DAX, to date.

On Oct. 8, the Creditreform agency issued its review of the third quarter developments and its regular economic confidence index for the *Mittelstand*, the small and medium-sized firms which employ 85% of the nation's industrial workforce and form the backbone of the German economy. *Mittelstand* confidence is at an all-time low, with pessimists clearly outnumbering optimists. Only 16.3% of the firms expect to increase their workforce in the near future, whereas a year ago, it was still 22.3%; only 25.8% want to invest, whereas a year ago, it was still 43.2%; and whereas 33.9% of the firms reported still-increasing sales a year ago, only 17.9% do now. Corporate insolvencies are up by 25.2%, as compared to last year—a tendency that increased during the third quarter. Bank loans to the *Mittelstand* firms have come to almost a standstill during recent months—which also reflects the increasing problems that the banks are having. There is, within this system of free-market economy, absolutely no incentive for an economic recovery; the state has to intervene massively, to turn the situation around.

Bankrupt States, Municipalities

This situation is being addressed quite directly by the German states and municipalities, which have been driven into a state of fiscal emergency. In the first eight months of this year, the 16 states have run up a total deficit of 24 billion euros, while they had projected a deficit of 19.9 billion euros for the *entire* year. At an average of 3 billion euros a month, these deficits will reach 36 billion euros, at least, by year's end—80% higher than projected.

Hardest hit is Germany's capital, Berlin, with a deficit of 4.12 billion euros, followed by North Rhine-Westphalia (2.98 billion euros), Lower Saxony (2.13 billion euros), Baden-Württemberg (2 billion euros), and Rhineland Palatinate (1.66 billion euros). While states' expenses rose by 1.4% compared to last year, their income shrank by 4.3%.

Many big urban centers are under financial supervision already. For example, in North Rhine-Westphalia, 21 out of 23 big cities are permitted to spend money only with approval from the state government. In Hesse, all five big cities are in that same situation. Berlin has debts twice as high as its entire budget—of which no less than 60% is financed by borrowing on the private capital market. Many of the German municipalities now have to borrow to pay their own administrative staff.

In an interview on Oct. 4, Dr. Stephan Articus, general manager of the DST, the national association of municipalities, which includes 5,700 cities with 51 million inhabitants, said: "The cities are not in a phase of conjunctural weakness; they are in the worst financial crisis of the post-war period." Articus emphasized that a few generous corrections of taxation policy won't suffice; the new German government will have to secure a sound basis for urban life to take place in Germany. An already-alarming drop of 20% in the trade tax revenues of 30 select big cities in 2001 was followed by a 13.6% drop during the first half-year of 2002 alone. The trade tax, paid by firms that have their headquarters in the jurisdiction of the respective municipality, is the major single source of income for urban centers. The net loss of 5 billion euros of urgently needed tax revenue recorded in 2001, will be surpassed this year, and if this trend is not reversed, the municipalities would run into complete default, Articus and other DST officials warned.

Increase the Role of the State

A chilly wind is blowing in the face of the new German government, and the first steps of reorganization that Chancellor Schröder has made in his Cabinet, indicate a certain awareness that a state of economic emergency has emerged: All essential policymaking with respect to economic and labor market policies will now be bundled into a new super-ministry. It will be given the entire planning department of the Finance Ministry, which is the crucial department in charge of preparing the annual economic report, and organizing the reviews and forecasts of the Federal advisory board. Next to the Chancellor's office, this new ministry will be the most powerful one in the entire Cabinet, and it will have powers that enable it to act against the deepening depression.

But effective action to deal with the crisis will require Germany, and the rest of Europe, to jettison the European Union's 1991 Maastricht Treaty, with its free-market ideology and its usurpation of national sovereignty over economic decision-making. Under the Maastricht rules, member-nations are obliged to keep public debt below 60% of GDP, and to strictly limit budget deficits, interest, and inflation rates. The treaty explicitly mandates that the European Central Bank be kept free from any and all political "interference" from elected governments of sovereign nations.

But now, when the very existence of the nation is at stake, voices are being raised to demand a change. *Die Welt* on Oct. 8 compared Germany's former free-market advocates to "the atheist, who, recognizing that his end is coming, becomes pious in his last days, and cries for the Holy Ghost." Due to the daily horrors on the stock market, "even the most notorious free-market proponents are now calling for a state bailout." For example, Joachim Paech, chief trader at Bank Julius Baer, laments that "the crash already now has historic dimensions, but it is almost completely being ignored by the government." Merrill Lynch Europe chief strategist Michael Hartnett "implores" the political leadership: "The stock exchange is the heart of the capitalist system. Once the capital no longer reaches the crucial channels of the economic system, the economy will collapse." The Euro Stability Pact has to be abandoned, agree top economists at Dresdner Kleinwort Wasserstein; the role of the state has to be upgraded in the present situation. Bank Julius Baer demands the issuance of credits directly by governments to the corporate sector in order to prevent mass bankruptcies, because the private banking sector has been devastated by the stock market crash.

The article concludes: "There seems to be a red alert on stock markets. If even the neo-liberal stock traders are calling for the state, they must be very close to the abyss. It's uncertain, whether the late conversion will rescue the atheist."

Lyndon LaRouche and the BüSo have stressed that the solution lies, not in state bailouts of the bankrupt banking system, or state enforcement of industrial "down-sizing" and austerity, but rather in a global financial reorganization: a New Bretton Woods. The speculative bubble must be dried up, and credit allocated for priority projects in the physical economy, especially infrastructure development.

A promising first step in the right direction, is that the Chancellor now says he wants to create more funds for promoting the *Mittelstand,* as the main instrument for reducing mass unemployment. This will be done through the Frankfurt-based Kreditanstalt für Wiederaufbau (Reconstruction Finance Agency), a non-profit institution of the public banking sector that can organize low-interest, long-term loans with grace periods, which is usually not possible for the private banking sector to do. On a smaller scale, the Kreditanstalt has done in the past what a true national bank should do for the entire economy, and the creation of such a national bank is still on the political agenda, where the LaRouche movement in Germany placed it during the recent election campaign.

Broadening the role of the Kreditanstalt is a useful move, but there is also a crucial time factor: The new German government will have to act swiftly, if it wants to regain political control over the turbulent economic and financial situation. And the newly elected national parliament should do very soon, what their colleagues in the Italian Parliament did (upon the initiative of the LaRouche movement) during the last week of September: Enter a serious discussion about the creation of a new world financial architecture. The LaRouche call for a New Bretton Woods will be put on the desks of the newly elected members of the German Bundestag, in the coming days.