

# German Leaders Call For Reregulation

by Rainer Apel

All of a sudden, calls for state intervention into the economy have become popular in Germany, among leading politicians. The paradigm-shift in the United States, with increasing interest in the role of the state, after the Katrina disaster and in connection with the crisis in the automobile sector, has been noted by politicians in Germany. And the fact that the hardline neo-con faction failed to get a majority of votes in the national elections in September, so that a Grand Coalition of Christian and Social Democrats had to be formed, instead, also played a role, in creating a more pro-state environment here.

Two acute crisis developments finally tilted the balance: 1) the unprecedented collapse of the power supply for a quarter-million citizens in the Münsterland region, for four days, at the end of November; 2) the freezing of all operations at Deutsche Bank Real Estate, on Dec. 12.

## Power Breakdown

The power collapse, evidently a result of several years of disinvestment by RWE, one of Germany's four leading power suppliers, hit Germany on the eve of new drastic price increases, planned by the power sector for January 2006. For years, gas and oil prices for electricity and heating have been rising, without any regulation by the government. The state of Baden-Württemberg even abolished all controls, five years ago. The net result is an average energy bill of 1,800 euros for a household of four persons, the German Tenants Association reported on Dec. 18. That is the equivalent of a skilled worker's monthly income. Since 2000, prices for electricity have increased by 25%, for household gas by 40%, and for heating oil by 50%. And for January 2006, the power suppliers and utilities of the urban regions have planned increases by 5-8%. The RWE disaster, which is being called the "German Enron," has created a broad public outcry, and politicians are coming under heavy pressure to intervene. In a surprising move, Roland Koch, the state governor of Hesse, normally a radical neo-con, decreed that none of the price increases will be allowed, for the time being. Also the government of North Rhine-Westphalia, the state where Münsterland is located, decided to put prices on hold, and has threatened a return to regulation of the privatized power sector. The state of Schleswig-Holstein has warned the power sector not to continue its radical pro-shareholder policy, but

to transfer some of its profits to the consumer, as well. Dietrich Austermann, the economics minister of the state, reminded managers of the "common good" clause of the German constitution, which states that "property implies a social obligation."

Others states, where the governments have already approved most of the planned price increases in the power sector, are faced with an outcry. In Brandenburg, the three biggest parties in the parliament are calling on the government to intervene. The case here is a special one, because the governor of the state is none other than the national Social Democratic Party chairman, Matthias Platzeck. And in Baden-Württemberg, Gov. Günther Oettinger, also an advocate of free-market economics, felt compelled to denounce the energy price increases as "poison for the economy." So far, Oettinger has not shown any commitment to return to controls in his state, which abandoned them in 2000, but he may change his mind soon, because the wind keeps blowing against the governing Christian Democratic Union, which risks losing votes in the March 26 elections for state parliament.

## Crisis at Deutsche Bank

The second main driver for reregulation in Germany has been the situation at Deutsche Bank's real estate division. Without warning, the management decided on Dec. 12 to freeze all operations at the division, giving as the official reason the attempt to prevent a "panic" among the more than 300,000 mostly smaller shareholders. Rumors that Deutsche Bank Real Estate was in trouble and would be forced into a drastic re-evaluation of share value, had indeed caused a run on deposits.

Deutsche Bank thereby caused a threat of upheaval in the rest of Germany's real estate sector, and the bank's CEO, Josef Ackermann, was summoned by Jochen Sanio, the director of the Federal Financial Supervisory Board (BAFIN) for a report. Ackermann had to answer questions about plans for a discount-sale of the real estate branch to some hedge fund or private equity fund, for which a freeze of operations and a forced re-evaluation of the shares would be a precondition. Ackermann's answers to Sanio's questions apparently were insufficient, and the BAFIN announced on Dec. 20 that it had launched an investigation of a potential orchestration of the crisis at Deutsche Bank Real Estate, including illegal insider deals.

On Dec. 20, the German Finance Ministry announced new legislation for tighter controls of hedge fund operations and for increased powers of the BAFIN to investigate suspected illegal and damaging activities on the part of the funds. Furthermore, leading financial policy experts of the Christian and Social Democrats have called for a special session of the relevant parliamentary bodies, to discuss measures to protect the real estate sector. Evidently, the era of privatization and radical deregulation is coming to an end.