Unions Warn Germany On Maastricht Austerity

Don't cut the budget if you want to balance it, German Trade Union Federation (DGB) chief economist Heinz Putzhammer warned in a statement on Feb. 21. He explicitly rejected German Finance Minister Hans Eichel's "fixation" on a short-term balanced budget.

"An absolute fixation on a balanced budget by 2004 is too dangerous," Putzhammer said, because "sufficient growth is not guaranteed. But, what we know for sure, is, that if the state pulls the brakes to consolidate the budget in 2003, and especially in 2004, too strongly, the following will happen: Unemployment will grow, and not shrink. The scissor between reduced tax income and social security payments, and the higher costs of unemployment will open further, instead of closing. The new debt of the public will rise, and not shrink. . . ."

The DGB economist explicitly attacked the European Stability Pact (based on the Maastricht Treaty) as unworkable: "What we need, in Germany and in Europe, is a sustainable and economically sensible strategy of consolidation. The European Stability Pact is not the right example. On closer inspection, it has a number of deficiencies in regards to 'sustainability' and 'economic sensibility'. . . ."

Instead, "infrastructure investments have to be stabilized at a politically desired and economically sensible level. Consolidation will then be accomplished . . . on the income side, in an economic upswing. Public investments can be financed through credits, if public infrastructure expenditures serve, as in many cases, several generations."

On April 5, Putzhammer reiterated his comments, in a statement greeting "decisions of France, not to realize the ambitious austerity plans of the euro countries by 2004, at any cost. Finally, an important EU member is realizing and indicating, that, in all probability, it is impossible to reduce the new debt incurred to zero, by 2004. . . . If recognition prevails in France that the austerity aims can be only reached, if at all, by a highly risky therapy for Euroland, then the German Government should no longer resist becoming smarter."

Putzhammer's arguments fall far short of the real scale of the present crisis. But, they reflect a growing awareness that in order to overcome it, the logic of the Maastricht criteria has to be discarded. It is unusual for trade unions to issue such harsh criticism of a Social Democrat-led government in an election year, and is as indicative of the mood among workers, as the growing strike ferment in Germany.

Basel Committee for Bank regulation has been working for some years with representatives from central banks and bank regulators from the United States, Canada, Japan, and ten Western European nations, to reform these rules. The main point of discussion is that debtors will be differentiated by their creditworthiness, so that banks will be able to loan first-class debtors much more than 12.5 times their equity. The losers of the new system have already been determined: the *Mittelstand.*

One of the strongest principles of banks used to be the fact that the creditor banks, with years of service in the local area, were familiar with the owners of the credit-taking enterprises, such that they would be able to make a realistic estimation of their creditworthiness. But now, "objective" rating methods are being introduced, which decide whether and under what conditions credit will be given. The criteria include equity and "cash flow." The criteria will be summed up, and a rating determined, by a rating agency, from which every business will have to ensure that it gets a rating at a cost of about 50,000 euros ($45,000).

The large rating agencies, with whom the speculative excesses of technology shares revealed a complete incompetence and blindness, will thus become also the arbitrators over credits to the industrial *Mittelstand.* On account of the chronic weakness of company stock capital in the smaller and middle-sized enterprises in Germany—precisely because they traditionally do not want to become dependent on shareholder-value interests—it appears that bad ratings, and with it higher interest rates, are preprogrammed.

Certainly, the new directives, called "Basel II" and scheduled to take full effect in 2006, will serve the banks as a pretext to tighten the conditions for middle-sized enterprises.

The 3.3 million *Mittelstand* enterprises of Germany create 80% of all jobs, 85% of the apprenticeships, earn half of the Gross National Product, and form the basis for two-thirds of the public social income and domestic revenue. If they are sacrificed to the interests of the global finance markets, it is all but over for the German economy.

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