Will Germany Welcome Killer 'Locust' Funds?

by Rainer Apel

On April 17, 2005, Franz Müntefering, then-chairman of the German Social Democratic Party, sparked a broad public debate when he charged that hedge, equity, and other investment funds that were swarming into Germany, were gobbling up firms like "locusts." His intervention, during the parliamentary election campaign in Northrhine-Westphalia, Germany's most populous state, followed a weeks-long campaign on this issue, by the LaRouche movement and its political party, the BüSo (Civil Rights Movement Solidarity).

Immediately, the entire country became polarized over the issue of the "locust funds." After having followed the doctrines of globalization and deregulation for years, the Social Democrats discovered re-regulation of the economy. The then-Chancellor of Germany, Gerhard Schröder, also took the issue to the July summit meeting of the Group of Seven in England, calling for "greater transparency of hedge fund operations," and for the first steps to install controls of these funds.

This initiative was rejected, according to Schröder, by "the financial circles in New York and London," but in one of his last acts in office, Schröder in late October 2005, promoted national legislation which increased the transparency of these funds, making it easier to control them. The legislation, which went into effect in July 2006, enables the top financial regulatory agency, BaFin, to check the books of such funds, especially if there is suspicion that they are conspiring for hostile takeovers of industrial firms.

Unfortunately, not all Social Democrats were in favor of the move. One example is Peer Steinbrück, new minister of finance in the Grand Coalition government of Christian and Social Democrats, which was formed in late November 2005. Under his tenure, the wheels of re-regulation were turned back. The first indication of this was his conduct in the conflict between the European Commission and the German savings banks, over the issue of the planned sale of the Berlin Savings Bank to private investors by the cash-strapped Berlin city-state administration. The savings banks' association opposes the sale on the well-founded grounds that one cannot merge the diverging interests of private investors in short-term profits, with that of public banks which seek the common good with longer-term loans to homebuilders, medium-sized firms, and other productive sectors of the economy. The first-ever sale of a public bank like the Berlin Savings Bank would open the floodgates for a broad private banking attack on the public banking sector in Germany.

Steinbrück Reverses Gears

In this conflict, Steinbrück first gave the impression he would side with the savings banks, but he then heeded the European Commission, which wants the sale of the Berlin Savings Bank, and he proposed instead a compromise, in which the Berlin sale would go ahead as an exceptional concession, if the rest of the savings banks remained protected. The Commission said "no," and threatened legal action against Germany, at the European Court in Strasbourg, claiming that the German government would be violating deregulation rules that were already valid for all of the European Union. The Commission threatened that it would launch financial sanctions against the German government for violation of the Maastricht Treaty budgeting rule, which does not allow the government deficit to exceed 3% of GDP annually. Such sanctions could hit Germany with 10 billion euros or more in fines.

Of course, there is broad opposition in Germany against the Treaty, which is not unrelated to the LaRouche movement's campaigns for an end to Maastricht. Although there have been many calls for a profound revision of the treaty, Steinbrück is "Mr. Maastricht." He is committed to eliminate the government budget deficit by 2009 or 2010, and has just presented a draft for the Fiscal Year 2007 budget, which he vows will stay under the 3% mark. This would only be possible, if payments to the long-term unemployed are cut by 30%. Steinbrück's financial policy advisory council has just come up with a demand going in exactly that direction.

Steinbrück also announced plans that amount to a complete reversal of the 2005 policy against the "locust funds." At an Aug. 31, conference in Frankfurt, entitled "Banks in Change," organized by the German economic daily *Handelsblatt,* Steinbrück said that the planned corporate tax reform would accompany "additional legislation" on private equity deals, with the aim of "welcoming private equity transactions," instead of banning them. The measures would include tax exemptions, at least under certain pre-conditions. Steinbrück said that hedge funds are in principle "useful market participants," but due to certain risks they might pose to the financial system, he would be in favor of "some form" of regulation, while making sure that "no discrimination" existed against the funds.

In addition, Steinbrück called for a dramatic increase of "public-private partnership" (PPP) investments in German infrastructure. The share of such PPP investments would go up from a current 4% to a whopping 15% of all infrastructure investments, Steinbrück said, claiming that through such "reform," billions of fresh private investors' money would stream into Germany. These political initiatives and the applause they have received from the pro-deregulation media, have earned Peer Steinbrück the label, "Locust Man," among German critics. As an "enemy of the common good," Steinbrück is a priority target of the LaRouche movement's political campaigning—until he is forced out.