If we help them, they must help us

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Confederation of German Trade Unions (DGB)*

The German federal government has done the right thing in putting together a rescue package for the financial markets, and in wishing to strengthen the banks’ own capital basis. At present there is no alternative to this emergency measure. It is also important that this initiative has been coordinated right across Europe. The financial markets are the nerve centre of our economy. This nerve centre has been seriously damaged. There is a lack of necessary regulations and statutory restrictions.

The state, as advocate of all its citizens, is the last authority which can restore the confidence destroyed by the bankers and fund managers. The short-term measures must be supported by medium and long-term reforms. The corporate mission of the banks and other financial institutions must be redefined and brought in line with the public interest: They must serve the economy.

No taxpayers’ money should be wasted on this short-term emergency aid. So the principle “If we help them, they must help us” must be pursued right down the line. As a matter of principle, subsidies must only be given in exchange for ownership rights for the state. However, this principle is not consistently enforced in the bill. In addition, the bill does not cover major fields of activity. For example, there is no set of meas-

* This article was first published by the Confederation of German Trade Unions (DGB), Federal Executive, Economic and Fiscal Policy Department, in the Standpunkt, no.2, 15th October 2008.
Friedrich Ebert Stiftung
London Office
50 Westminster Bridge Road
London SE1 7QY, UK

ures to prevent the financial crisis from having an impact on the real economy.

The creation of a financial market stabilisation fund is right and indeed necessary. One purpose of the fund is to give guarantees. These are intended to help restore confidence in the markets. A charge should be made for every guarantee. This measure points in the right direction. Over and above this, the funds should make possible the partial nationalisation of struggling financial institutions. This must take place in the form of ordinary shares making up at least 25.1%. This is the only way for the state to be able to influence the commercial policy of the bank which has been taken over.

The conditions for giving guarantees and for partial nationalisations must already be set out in the bill so that they can serve the objective of long-term, sustainable corporate policy. This means, at least for the duration of the government support, that there must be no dividend payments to the owners, that Board members' salaries should be kept down to an appropriate level and that loans should be provided by the banks in line with the needs of the real economy. The cost of the financial crisis must not be dumped at the door of working men and women.

In addition, the duration of the re-capitalisation measures must not be restricted. The point at which state holdings are resold must be made to depend on the development of the markets. Setting the concrete deadline of 31 December 2009 is contra-productive in view of the uncertainties of the future. Only in emergencies should the financial market stabilisation fund also be used to purchase dubious loans and derivatives. Such a measure is in flagrant breach of the “If we help them, they must help us” principle, and may blow the new instrument to smithereens.

The aid package protects the real economy from even more dramatic consequences of the crisis in the banking sector. Now we also need a programme of investment, long demanded by the unions and amounting to at least EUR 25 billion. An investment programme for education, health and public infrastructure, along with ecological, energy-efficient reconstruction measures must form part of common European efforts in economic policy.

The German Trade Union Congress (DGB) welcomes the government assurance that employees and pensioners, as well as the self-employed, can be confident that their financial investments are safe.

After the emergency aid, it is time to deal with the causes. The financial crisis shows: Self-regulation of the financial markets has failed. The banks' commercial strategy has left their core business far behind. Instead of pursuing sustainable, organic growth on behalf of their customers, short-term profit maximisation and double-digit profit margins were the order of the day. An unsupervised system of shadowy banks and securitisation was created. Private equity funds and hedge funds were able to construct pyramids of debt in an almost law-free zone.

Now we need a new regulatory framework. Liability and prevention must be extended. For example, stable financial markets need to create a joint association of European private banks which will take on liability for its members: an “MOT” for financial market products, the banning of special purpose entities and of the 100% selling on of credit risks is required,
along with an appropriately high level of banks’ own capital to cover securitisation deals. Purely speculative financial products must be abolished. The wellbeing of the public must be written into legislation on shares. Shareholder value was a road to nowhere. Instead, we need to return to sustainable, long-term dealings. There must be restrictions on incentive systems and exorbitant salaries for fat cat managers. Code-termination to ensure sustainable corporate policy must be extended as a counterweight to the interests of the actors on the financial markets. In addition, we need a system of incentives which penalises short-term behaviour. We need a tax on financial transactions to make short-term, speculative transactions more expensive. The public rescue package should be paid for out of the proceeds of this tax.

Besides all this, the flow of money into speculation must now be dammed. The speculative bubbles are also being fed by the massive redistribution of wealth in society from the poor to the rich. For the political world, this can only mean a change of course in fiscal, economic and social policy. The German trade unions will make their contribution to this necessary redistribution through their policy in wage bargaining, and in so doing, they will at the same time support the development of the economy.

Translation: The Language Technology Centre

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