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Critical Endorsement of the German Rescue Package (October 13, 2008)

When the Grand Coalition could no longer resist international pressure and mounting domestic concerns over some German banks, it reluctantly passed a 470-billion-Euro rescue package to save the financial sector from collapse. Business analyst Mark Böschen comments on the necessity of this "bitter medicine" in *WirschaftWoche* [*BusinessWeek*], one of Germany's leading economic journals.

Rescue Package: Bitter Medicine

The rescue package is expensive for all citizens: in order to contain the financial crisis, the federal government is spending 470 billion Euros on our banks. This dashes all hopes for a budget free from new debt in 2011, one of the few remaining reform goals of the Grand Coalition. Still, Mark Böschen, editor of WirtschaftsWoche, believes that these extreme measures are warranted.

For without them there is the threat of a collapse of the financial system and a global economic crisis. If a seriously injured person is brought to the emergency room, immediate aid is called for. This is the hour of the rescuers. But long-term rehabilitation must follow.

Germany's banks have never before received this kind of cash injection: the federal government wants to guarantee senior bonds and money market transactions to the tune of 400 billion Euros in order to revive business between banks. On top of this, Berlin will pump up to 70 billion Euros into strengthening the equity of our banks, reports the Reuters news agency. In return, the government will receive shares in the banks that accept the aid. This is a bitter pill for bankers. But it is an important pill, because, with it, Berlin secures a voice for itself and can hope to recoup part of the money it spent if the rescue package works.

The medicine is also bitter for the German citizens – that is, for all of us. The cash injection is forty-seven times the size of the additional spending package for education that the federal government (according to information from *Handelsblatt*) is planning. Money spent battling the financial crisis will be missing somewhere else and will increase the federal government's debt burden.

However, not acting or doing too little would be even more costly for the general public. At this time, everything must be done to revive the collapsed financial markets. Businesses are already filing for bankruptcy because they are no longer receiving loans from their banks, as was the case this weekend with RV-manufacturer Knaus Tabbert in the Bavarian town of Jandelsbrunn. Thus, the unprecedented rescue action is aimed not only at investment bankers in Frankfurt and New York, but also at employers in the German provinces.

Now is not the time for petty criticism and long discussions. But when the acute danger is over and – one hopes – the collapse has been averted, analysis and therapeutic rehabilitation must follow. Unregulated Wall Street capitalism must not be resurrected. After the last speculative bubble, the technology stock craze that lasted until 2000, the investment banks got away with minor fines – without major regulatory changes. This time real change is necessary.

Financial capitalism recently took on a life of its own, said the nearly 80-year-old liberal politician and sociologist Ralf Dahrendorf on the weekend – and reminded us "that market freedom requires regulation." Without regulation, he stated, free markets cannot function. The hope is that after decades of unregulated excesses, we will find our way back to regulated, responsible liberalism – so that expensive rescue packages with tax revenues for the banks will not be needed again anytime soon.

Source: Mark Böschen, "Rettungspaket: Bittere Medizin" ["Rescue Package: Bitter Medicine"], *Wirtschaftswoche*, October 13, 2008.

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