# German government’s stimulus package: €50 billion for automakers, €1 billion for childcare

**By Peter Schwarz**
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After two days of talks, the parties in Germany’s grand coalition government agreed on a €130 billion stimulus package for the years 2020 and 2021.

It comes on top of a series of other existing programmes, including the coronavirus bailout programme, which was adopted in March and now amounts to close to €1.2 trillion, the European Central Bank’s bond buying programme, which will surpass €1 trillion by the end of the year, and the European Union’s €750 billion bailout measures, some of which will provide financing to Germany.

The main beneficiaries of all of these programmes will be big business and the stock exchanges. Since its collapse in March, triggered by the coronavirus, Germany’s DAX has enjoyed massive gains and is approaching the historic record high it achieved prior to the crisis. As a result, the wealth of the shareholders of all of the companies listed on the DAX has risen by a combined €360 billion in two-and-a-half months, almost three times as much as the stimulus package.

“The current stock market boom is the best stock market boom money can buy,” commented Gabor Steingard, the former editor-in-chief of financial daily *Handelsblatt*, in his Morning Briefing podcast. “The treasuries in Washington, London, Berlin and Paris are wide open, and the champagne is flowing in the financial districts ... The financial markets around the world have long understood that the coronavirus does not represent an imposition, but rather an injection of cash. The investors there are among the biggest profiteers of the efforts to combat the pandemic.”

The latest stimulus package does nothing to change this assessment.

The grand coalition, and the Social Democrats in particular, are doing their best to sell it as a tremendous act of social welfare. In the face of major class struggles developing in the United States and other countries, they are focused on portraying themselves as parties of social compromise. In this, they are receiving support from economists and the media. For example, the *Süddeutsche Z eitung* claimed that the package strengthens “the socially vulnerable.”

This is a flat-out lie. Like the previous bailouts, the latest package showers cash on the rich, concealed behind a few modest rations for families. Additionally, it is already clear that the vast sums will be offloaded onto the working class in the coming period through austerity measures, as was the case following the 2008–2009 financial crisis. It is noteworthy that the financing of the programme through an increase in taxes for the top income earners and wealthiest individuals was not even considered.

As a result, the stimulus programme will produce a further increase in social inequality by enriching the super-rich at the expense of the vast majority. And this under conditions in which major companies like Lufthansa, ZF, and all automakers have already unveiled plans for large numbers of job cuts. The unemployment figures in April and May have already risen substantially. More than 7 million people are currently in short-time work and fear losing their jobs. In addition, the threat of a second global wave of the pandemic looms large as a result of the irresponsible policy of lifting all lockdown restrictions.

The socially balanced character of the package was allegedly demonstrated by the reduction of the sales tax for five months from 19 to 16 percent, or from 7 to 5 percent at the reduced rate, at a cost of €20 billion. “People with low and middle incomes, who spend most of their net wages on consumption goods, profit in particular from a cut in sales tax,” wrote the right-wing daily FAZ.

But basic consumption goods, like food, have already risen by a much greater margin during the pandemic than they will now decline as a result of the tax cut. Vegetable prices rose by 26.3 percent between January and March. Fruit, milk and butter have also risen sharply.

Under these conditions, cutting the sales tax will primarily benefit big business and traders. Gabriel Felbemayr, president of the Kiel-based Global Economic Institute, told *Handelsblatt*, “It is not clear to me if the businesses will reduce their prices for this short time or just keep the tax cut themselves.” Companies with a powerful market position could just wait out the six months without reducing their prices.

The minuscule sums designed to help those hit hardest by the coronavirus crisis are more of an insult than a help.

Parents will receive a one-off increase in child benefit of €300 for each child under 18. The total cost for this is around €4.3 billion. This is a ridiculously low sum when one considers that many parents have been forced to give up large portions of their income over many weeks or pay hefty fees for childcare while schools and kindergartens were closed.

Another €1 billion is being made available nationwide to renovate dilapidated kindergartens and improve hygiene guidelines. This amounts to one ninth of the amount they are making available to rescue Lufthansa.

The entire package does not include a single cent for poor people without children, as Ulrich Schneider, the head of the Paritätische Wohlfahrtsverband welfare organisation, commented. The word “care” does not even appear in the text of the package. However, the coronavirus crisis has exposed the terrible conditions in elderly care homes, which have led to numerous avoidable deaths.

The municipalities, which have seen their budgets systematically gutted by the federal government, will receive a mere €6 billion. And this in spite of the fact that they have been affected especially severely through collapsing business tax revenues, increased social welfare spending, and a major drop in revenues from cultural institutions. The proposal to write off the municipalities’ outstanding debts was scrapped. Instead, the federal government will pay for part of the costs of accommodating people on social welfare.

The vast majority of the €130 billion stimulus package will flow directly into the coffers of big business. Eleven billion euros is earmarked to cut the renewable energy surcharge. Although this will result in a minimal decline in bill payments for private households, the main beneficiaries will be large industrial customers.

Twenty-five billion euros in bridge financing will be provided to small and mid-sized businesses in sectors hit especially hard to cover the collapse in revenues. In addition to tax relief, the plan includes rebates of business operating costs up to a limit of €150,000 for hotels and restaurants, bars and clubs, travel agencies, travelling performers and professional sports clubs in the lower leagues. To reduce the burden of the coronavirus crisis on cultural institutions, a minuscule €1 billion is planned.

The package includes €5.3 billion to cap social insurance contributions at 40 percent of total income. Half of this will flow directly into the pockets of the employers.

The largest portion of the package, €50 billion, is set aside for investments in climate change and new technologies. This fine-sounding headline conceals a flood of cash for the auto industry.

Despite intensive lobbying, the automakers were not able to persuade the government to implement a purchase premium for petrol and diesel-powered cars. Instead, they will benefit even more from a higher premium for electric vehicles. The purchase of an electric vehicle will be financed in the future by a €6,000 premium instead of the current €3,000.

In addition, other funding programmes for automakers are included: €2.5 billion will be invested in expanding the battery charging network for electric vehicles and another €2 billion will be spent on battery production. And the automakers will also profit from the reduction in sales tax on petrol- and diesel-powered cars. For a mid-range car worth €30,000, the saving amounts to €900.

The government also intends to increase the capital available to the Deutsche Bahn railway company by €5 billion. Another €2.5 billion is set aside to support public transport.

The stimulus package was praised by all economic institutes and business associations. The president of the Ifo Institute, Clemens Fuest, described it as “balanced.” The director of the employer-aligned German Economic Institute, Michael Hüther, praised it as “surprisingly large and fiscally responsible.” The scientific director at the trade union-aligned Institute for macroeconomic and Growth Research (IMK), Sebastian Dullien, said it was “to be welcomed that the government agreed on a stimulus package of a substantial size.”

Alongside fresh attacks on the working class, the package aims to secure an advantage for German big business in the trade wars with their European and international rivals. This is why it enjoys the unreserved support of business associations and the trade unions.