

Germany signs massive recovery package

by Deborah Cole

Germany has thrashed out the biggest stimulus package in its postwar history but critics dismissed it Tuesday as is too little, too late to shore up Europe's leading economy.

Just weeks after Finance Minister Peer Steinbrueck blasted neighbours' "crass Keynesianism" for their costly recovery plans, the ruling coalition agreed on steps worth 50 billion euros (66 billion dollars) over two years.

It is a second, stronger shot in the arm for the world's number one exporter after Chancellor Angela Merkel's first, 12-billion-euro effort in November fell short and comes nine months before she will stand for re-election.

Finalised in late-night talks Monday between Merkel's CDU conservatives and the centre-left SPD, it includes 17-18 billion euros in investments in roads and schools, and nine billion euros in tax cuts for firms and individuals.

It also includes a 100-billion-euro loan guarantee programme to help stricken companies hobbled by the credit crunch, according to a copy of the agreement obtained by AFP.

Other elements include a one-off, 100-euro extra child benefit payment and sweeteners to persuade reluctant consumers to buy new, environmentally friendly cars to boost Germany's struggling auto sector.

It also includes cuts in health insurance contributions for employers and employees to slash the cost of job creation and to put more cash in shoppers' pockets, and simpler rules on creating temporary work.

"All in all, this is a package that will help us to get through this economic crisis and keep jobs," Volker Kauder, head of the CDU group in parliament, told reporters.

But critics slammed the measures -- many of which will only take effect on July 1 -- as too restrained to reverse what economists warn will be the worst recession since 1945 and perhaps even the 1930s.

"It is ridiculous to believe that such puny amounts could stabilise the economy," the leader of the opposition pro-business Free Democrats, Guido Westerwelle, told the Muenchener Merkur newspaper, calling for deeper tax cuts.

The chief executive of the German Chambers of Commerce and Industry, Martin Wansleben, said firms would need more tax relief "before this legislative term ends" in September, in an interview with the Frankfurter Rundschau newspaper.

The head of the Trade Union Federation, Michael Sommer, also had little praise for the plan.

"It is too expensive, will do little to boost consumption or jumpstart the economy ... and is not covered in the public budget," he told German radio.

Analyst Holger Schmieding of Bank of America called the stimulus package "a very mixed bag.

"To stop and reverse the current downward spiral in investment and business early, an immediate stimulus to demand would have made most sense, for instance, a big immediate cut in payroll taxes," he said.

The German press was equally sceptical.

"Given that we are facing the worst economic crisis for 80 years, this package -- de facto no more than one percent of GDP -- is quite small," the left-leaning daily Tageszeitung said in an editorial.

"The asymmetry is odd and the half-heartedness is risky."

The conservative Frankfurter Allgemeine Zeitung said it was troubling how quickly both the governing parties had abandoned their calls for fiscal responsibility in the face of the crisis.

"The state is taking over control of the economy," it said. "Good luck Germany."

Data in recent months have made it clear that the German economy is going south, with industrial orders and output falling off a cliff and unemployment on the rise in December for the first time in 33 months.

Unemployment now stands at more than three million and economists fear one in 10 workers will be out of a job by the time of the general election in September. Meanwhile Gross Domestic Product could shrink three percent this year.

Negotiations on the package saw a bitter battle between the governing parties, which were forced into a coalition in 2005 when neither won a workable majority with their partners of choice in the general election.

The cabinet is due to decide on the stimulus package over the coming week before the lower and upper houses of parliament vote in late January or early February.