

Germany: The sale of SachsenLB bank—bailing out speculators at public expense

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It is not necessary to be an economic expert to comprehend the connection between the explosive increase in the incomes of German managers and the portfolios of the rich on the one side and declining average earnings and social welfare benefits on the other. The simple rules of arithmetic are sufficient. That which accumulates in the accounts of the wealthy elite has been taken from the pockets of the ordinary citizen.

At the same time, the exact mechanism whereby this process of redividing social wealth takes place is often obscure and complicated. Such transfers frequently extend across the globe and take place over a period of time. Profits and dividends from speculation can rise over a period of time, without immediate consequences for wages and salaries—until a correction takes place, with a jolt.

The emergency bailout of SachsenLB, the state bank in the German federal state of Saxony, is a case where the connection between the unrestrained drive for profit and the emptying of the pockets of broad layers of the population is clearly visible. It says a great deal about the current state of society and deserves close attention.

The state-owned bank speculated on the American sub-prime mortgage market and according to financial experts notched up debts amounting to the fantastic sum of €43 billion. That is two-and-a-half times the size of the state budget. The German Bank Supervisory Committee has threatened the bank with immediate closure.

On the evening of December 12, the state government of Saxony sold the SachsenLB for the sum of €328 million to the State Bank of Baden-Württemberg (LBBW). The state of Saxony agreed to guarantee a surety of €2.75 million to cover risks bound up with its

speculative enterprises. In light of the continuing crisis of the American mortgage market, there is little doubt that this sum will be required in its entirety.

One can easily imagine the consequences. The missing billions in the state treasury will be put forward as the argument for further cuts in public service jobs together with cuts in public investments and services and the further slashing of social security benefits. There are numerous investors who have reaped enormous profits from the billions in speculation undertaken by the SachsenLB, but they are not to be made responsible for the current crisis. Instead, the state treasury and the ordinary taxpayer must foot the bill.

Prime Minister George Milbradt (Christian Democratic Union—CDU) has sought to wash his hands of the affair, although the founding of the SachsenLB was undertaken at his direct initiative, and, in his role as Saxony finance minister (1990-2001) and prime minister (starting from 2002), he was intimately involved in the activities of the bank.

The Left Party, which has the second biggest parliamentary group in the state parliament, has now demanded Milbradt's resignation. This demand is surely justified. However, should the Left Party take over government in Saxony, it would continue to pursue a rescue plan for the bank at the expense of the population. In Berlin, the Left Party carried out precisely such a policy in its rescue efforts for the Berlin Banking Society (BBS), which was forced to declare bankruptcy following real estate speculations some years ago. The Left Party joined the SPD in a coalition in the Berlin Senate following the collapse of the BBS, and both parties then undertook the necessary

measures to bail out the bank's investors at the expense of the capital city's population.

There is much talk in Saxony at the moment of "incapable bank managers." A relatively small bank allowed itself to become involved in international transactions, of which it had little notion. But any brief examination of the fate of some of the world's biggest banks reveals that the situation involving SachsenLB is no exception. The world's biggest financial services bank for private customers, Citibank, as well as the world's largest manager of private wealth assets, Swiss UBS, have lost billions in connection with investments in the US mortgage market. UBS racked up losses of US\$14 billion in the second half of 2007 alone.

In today's markets, enormous wealth is acquired on the basis of speculation, which is entirely illusory. The US mortgage market is only the tip of the iceberg. People were given mortgages under conditions in which it was clear they would never be able to pay them. These loans were then bundled into packages, which were launched on the international finance markets as lucrative investments. As long as real estate prices rose, everything went according to plan. When they sank, the bubble burst. Now there is the threat of a chain reaction, which, according to some commentators, could rival the financial crash of the 1930s.

The fictitious paper securities are forced to secure real value, which can only be achieved through the exploitation of the working class. In the US, homeowners are losing the roofs over their heads and must spend the rest of their lives paying off their debts. Workers across the world must work harder for less pay in order to ensure that banks like SachsenLB can be "saved."

This alone is sufficient to make clear that it is not just bad management that is responsible for the crisis of the SachsenLB, but a social system that subordinates any form of rational planning to the blind workings of the market and places the principle of personal enrichment above the needs of society as a whole.

The disastrous collapse of SachsenLB also throws a fresh light on the reintroduction of capitalism in the former East Germany (GDR) and Eastern Europe.

Saxony has been governed since 1990 by the CDU and was always considered a role model for the benefits arising from the restoration of capitalism. In the centres

of Dresden and Leipzig, one finds marvelously restored historical buildings, surrounded by gleaming new shopping centres. The surrounding streets and the railways to the cities have been modernised at considerable cost. On the edge of the cities are a number of ultramodern auto and electronic factories.

When one leaves the city centre, however, one quickly encounters depressed living conditions and poverty. The population level is declining, unemployment rates are high, and even in the modern factories many workers are employed on the basis of temporary low-paid contracts. The region of Saxon Switzerland on the fringes of Dresden is a stronghold for neo-Nazis, and in the last state election the neo-fascist National Democratic Party (NPD) won nearly the same number of votes as the SPD.

Saxony was the only east German state to insist on founding its own bank after 1990, the SachsenLB, which has now been sold off to the state of Baden-Württemberg. This is of great significance. The resulting crisis of the Milbradt government reflects in turn the bankruptcy of a social system, which offers no future to the broad masses of the population.



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