Banking crisis hits Germany with full force

Billions for speculators

Peter Schwarz
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For the past 10 years, all of the cuts made in the public services have been justified with the argument that it was necessary to balance the German federal budget by the year 2011. This includes the anti-social measures (Agenda 2010) introduced by the previous Social Democratic Party-Green Party government.

Now, Finance Minister Peer Steinbrück (Social Democrats--SPD) has made €26.5 billion available to bail out a single German bank. Overnight, his budget targets have been thrown overboard.

With the imminent bankruptcy of the bank Hypo Real Estate (HRE), the financial crisis has hit Germany with full force. Just last Thursday, Steinbrück told the German parliament that the banking crisis was essentially an American problem. The German system of comprehensive banking had proved far more durable than the American model, he said.

He already knew better. After his speech to the parliament, Steinbrück went directly to a meeting with the heads of prominent private banks and top officials of the Federal Bank and the Federal Financial Supervisory Authority to discuss the problems at HRE.

Over the weekend, one crisis meeting followed the next. German Chancellor Angela Merkel was drawn in, and the European Central Bank, as well as the governments of Great Britain and France, were informed.

At 1:30 a.m. on Monday, just 30 minutes before the opening of the stock exchange in Tokyo, a rescue package of €35 billion was assembled to prevent the collapse of HRE. A quarter of the rescue package has been put up by private banks, the rest by the German Treasury.

For the moment, the government is providing only a debt guarantee. The bailout is financed by the private banks and the Federal Bank. The Treasury must pay if and when HRE is no longer able to cover its financial liabilities and collapses despite the rescue action.

On Monday, no one was prepared to rule out this eventuality. "I do not want to commit myself on the possibility that losses could be incurred," Torsten Albig, the spokesman for the finance minister, told reporters.

HRE is no minor player. It is listed on the DAX (Germany's major stock index) as one of the 30 biggest companies traded on the Frankfurt stock exchange. It is of comparable size to the US bank Lehman Brothers, which went bankrupt in the middle of September, and eight times as big as IKB Bank, which incurred losses of billions of euros in connection with the US subprime mortgage crisis.

"If we had not intervened there would have been substantial damage to enterprises and jobs at a rate which we have not experienced up to now," argued Finance Minister Steinbrück to justify the multibillion-euro rescue package.

Unlike the hard-hit IKB, Sachsen LB and Bayern LB banks, the problems at HRE are not due to bad real estate loans. Rather, they stem from the bank's need to cover billions in losses by its Irish subsidiary Depfa, which it acquired just last autumn for €5 billion.

Depfa specialized in the financing of state budgets and infrastructure projects, which are largely regarded to be free of risk because states rarely go bankrupt. However, the bank used a financing model that was at least as risky as the speculation in the unsecured mortgage market. It provided long-term credits which it refinanced by means of short-term loans.

As long as the money markets remained liquid and enough short-term credit was available, this business model functioned. Following the collapse of Lehman Brothers two weeks ago, however, inter-bank credit began to dry up. Trust between the various banks had evaporated. The sum which Depfa could refinance declined on a daily basis, and eventually it could not make payment on more than €10 billion, which HRE must now cover.

The crisis at HRE makes a mockery of the homilies by the finance minister and prominent bankers, according to which the German banking system is sound and the crisis under control. While the current financial crisis has its origins in the US, it has now fully enveloped Europe.

At the same time the German government was bailing out HRE, four other major American and European banks had to be rescued from collapse: The British government took the mortgage bank Bradford & Bingley under state control and assumed responsibility for its debts of €63 billion; the governments of the Benelux states propped up the finance company Fortis with €11.2 billion; the American banking giant Citigroup swallowed up it smaller US rival Wachovia, providing guarantees for the latter's debts to the tune of €29 billion; and the governments of Belgium, France and Luxembourg made another €6.4 billion available to prevent the collapse of the Belgian-French real estate finance firm Dexia.

The question on everybody's lips is: Which bank is next? Certainly, there are plenty of candidates--known ones and even more unknown ones.

Until a few days ago, the problems at HRE were known only to finance specialists and insiders. The bank's chairman, Georg Funke, continually claimed that the bank was healthy. Last November, he even declared that HRE had emerged from the financial crisis in a stronger position.

Many German banks have granted credits to HRE, the repayment of which now hangs in the balance. And the full consequences of the bank's investments in Lehman Brothers have still to emerge. "The results of the secondary effects of the Lehman Brothers collapse have been underestimated," was the conclusion of a banking expert cited in the *Süddeutsche Zeitung*. Particularly vulnerable are BayernLB, the Landesbank Baden-Württemberg and the HSH Nordbank.

On Monday, the value of German bank shares plummeted on the Frankfurt stock exchange. HRE's share price was down by 75 percent at one point. Aareal bank shares fell 40 percent, and those of Commerzbank by 25 percent. These two banks are active in similar fields to those of HRE. The banks are so closely interlinked that any collapse or threatened collapse could set off a chain reaction similar to that which took place in Germany in 1931, when the bankruptcy of the Danat bank led to a run on the banks and a devastating crisis.

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The German government has reacted to the financial crisis in the same way as the Bush administration. It is handing over billions in public funds to the banks--sums which the taxpayers will inevitably be forced to repay.

The contrast between the brutality with which spending cuts have been implemented in the sphere of health, social welfare and other public expenditures and the generosity of the government to the banks is simply staggering.

The money made available by the government to HRE is equivalent to one month's payment of basic welfare benefits (€350) for every man, woman and child in Germany. A proposed increase in child benefits of around €10 per month--a source of heated discussion within the government for months--would cost just a tenth of the sum made available to HRE.

Suddenly, adherence to a stringent budget policy, for years a sacred principle of government policy, is thrown overboard in order to protect the interests of the banks. The question of responsibility for the gigantic losses is not even posed. At the same time, the most basic democratic considerations are treated with undisguised contempt.

Finance Minister Steinbrück and Chancellor Merkel agreed on a surety bond of €26 billion in a series of private meetings with the heads of the largest banks, without any consultation with the German cabinet, not to speak of the parliament (Bundestag) or the electorate. The cabinet was informed only on Monday, after the rescue package had been decided, and the Bundestag factions were allowed to discuss the issue only on Tuesday.

This is justified with the argument that it is necessary to undertake regrettable actions in order to prevent something even worse, and that there is no alternative to a national bailout of the banks because otherwise the entire financial system and economy would break down. At the same time, nobody can guarantee that the end of the crisis has been reached, and it is very likely that further billions will be required to rescue additional banks.

This attitude turns the state into the hostage of finance capital. It amounts to an open admission that the government serves the banks rather than the people--contrary to the official fiction of democracy.

There is, however, an alternative: The transformation of the banks into public utilities, without compensation to their owners and large shareholders, their democratic control by the people, and their subordination to the interests of society as a whole instead of the profit interests of a small elite. Those bankers responsible for the crisis, who have earned millions in the process, must be held accountable and stripped of their assets.

None of the parties sitting in the Bundestag is prepared to implement such measures. Both the ruling grand coalition of conservative parties and the Social Democratic Party (SPD) and the opposition, comprised of the Free Democratic Party, the Greens and the Left Party, defend the principle of capitalist private ownership.