After billions in state aid, Bavarian State Bank sheds thousands of jobs

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The first measure of the new Bavarian state government under Prime Minister Horst Seehofer (Christian Social Union—CSU) has been to organise, along with the federal government, a comprehensive "rescue package" totalling €31 billion for the semi-state-owned Bavarian State Bank (BayernLB).

Among the provisions of the "rescue package" for the BayernLB, drawn from taxpayers' money, is a direct attack on the conditions of the bank's workforce. Following talks with the federal government, the head of BayernLB, Michael Kemmer, announced in early December that the bank would "shrink to a profitable size" through the carrying out of mass redundancies and the subsequent privatisation of the bank.

Management plans to slash 5,600 jobs from the bank's worldwide workforce of 19,200. The job cuts will take place predominantly in the bank's foreign operations, with the closure of branches in Hong Kong, Shanghai, Peking, Tokyo, Milan and Mumbai. The activities of its branches in New York and London will be greatly reduced, and the banking group's two main operations in eastern Europe—Hypo Group Alpe Adria and MKB—will also be slimmed down.

Around 1,000 jobs will be cut in Germany, including 800 at the head office in Munich. The bank is also discussing the sell-off of its subsidiary, the SaarLB, with more than 600 jobs at risk. BayernLB's aim is to save €670 million by the year 2013 through a radical restructuring, involving thousands of redundancies.

The "rescue" of the BayernLB is a prime example of the manner in which the ruling elite is dealing with the financial crisis. Billions of taxpayer's money are being pumped into overstretched and run-down banks to ensure the profits of big private investors.

Seehofer explained that there was no alternative to the "stabilisation" of the bank as part of a plan for its medium-term privatisation. The Bavarian economics minister, Martin Zeil (Free Democratic Party—FDP), has already submitted a schedule for its complete privatisation. Following the completion of its restructuring, Zeil aims for "a partial privatisation by 2014 and complete privatisation one year later, after the expiry of its state guarantee."

A model for such a procedure is the sale of the German IKB bank, which was the recipient of billions of public money and then sold for a ridiculously small sum to the American private equity firm, Lone Star.

It was already clear by the spring of 2008 that the BayernLB was heavily involved in speculative activity in the US mortgage market. The bank was forced to write down the value of its investments on a number of occasions. With a balance sheet total of around €416 billion, the BayernLB is the second-largest state bank in Germany. It is owned by the state of Bavaria and the Bavarian Association of Savings Banks.

While the initial source of billions in losses for the BayernLB was identified as the US property market, it is now clear that the bank has also suffered heavily due to its involvement in the American automotive industry. *Die Welt*, the daily newspaper, cited experts who declared that the bank was affected by the problems at GM, Ford and Chrysler, all of which are currently appealing for US government funds to avoid bankruptcy.

Just four weeks ago, the management of BayernLB declared it required a capital injection of €6 billion. Today, this figure has risen to €10 billion. The bank is also calling for government guarantees of €21 billion. So its rescue package now totals €31 billion.

The Bavarian state government has agreed to make €10 billion available to the BayernLB in a direct injection of capital. This sum amounts to a quarter of the Bavarian state budget. It will be recorded as "special amounts of capital" in the budget, but this bookkeeping trick cannot hide the fact that the transfer of funds will have severe consequences for the state. The state government is also providing €5 billion as part of the bank's guarantee reserve, with the federal government putting up €15 billion.

As was the case at the start of the year, both the federal and state governments deny any responsibility for the plight of the BayernLB. Kemmer, the chairman of the board, has refused to resign from the bank, although he declared last spring his intention to continue trading in risky securities at a time when the institution was already recording enormous losses.

The state chancellery has sought to pin all the blame on the financial crisis in the US and has asserted its own innocence. In fact, high-ranking government representatives and CSU functionaries have been sitting on the leading committees of the BayernLB since its establishment. The former finance minister and CSU leader, Erwin Huber, was until recently chairman of the bank's supervisory board. It is for good reason that the BayernLB is referred to as the "house bank of the CSU."

Following a lengthy period during which a close network of political and economic interests in Bavaria were able to enrich themselves, the bank's employees and the population as a whole will now be called upon to pick up the tab following the latest crisis.

None of those responsible for the bank's plight have been held to account. Following conflicts with the state government, the long-time head of the BayernLB, Werner Schmidt, resigned last spring. It was under his leadership that the bank extended its activities in risky international markets. In addition to his annual salary of €1.5 million, Schmidt also received extensive bonuses in the past. The details of his resignation package remain unknown, but he continued to receive a lavish salary for several months after his resignation.

The CSU-FDP state government has also indicated plans to make additional sums available to BayernLB—above and beyond the current package of €31 billion. Its generous policy toward the BayernLB makes a mockery of the austerity measures it has pursued for many years in the name of "balancing the books."

The Bavarian state government has carried out extensive cuts in social programmes, education and public services (and plans to make more in the face of the economic crisis). Thousands of teachers and public service workers, who protested against the state's economic measures, were informed that nothing could be done...there was no money available!

In its current policy, the conservative state government can rely on the full support of the main opposition parties, the Social Democrats (SPD) and the Greens. Both parties have backed the bank bailout and declared that the sacking of bank staff is "inevitable."

The employee council and the trade unions active in the BayernLB have also supported the bank's "rescue plan," despite the massive dismissals involved. The employee council chairman, Diethard Irrgang, declared that he trusted the assurance given by Kemmer and the executive committee that compulsory redundancies were "in the first place, not to be expected."