German government takes stake in Commerzbank

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On January 11 it was announced that the German government was taking shares in Commerzbank within the framework of the Special Fund Finance Market Stabilization program (SoFFin). The government decision means that Commerzbank can go ahead with its planned takeover of the Dresdner Bank. The decision also means that Commerzbank cannot be taken over by a foreign competitor without the agreement of the government.

The federal government had already made €8.2 billion available to Commerzbank in November 2008, based on an interest rate of 9 percent. This sum has now been doubled to €16.4 billion. In addition, the government has acquired 295 million shares in Commerzbank for a sum of €1.8 billion. It thereby holds a 25 percent share in the bank plus one share, entitling the government to two seats on the bank's supervisory board and the right to influence or block basic management decisions.

The participation by the state in one of Germany's biggest credit institutions marks a political turning point. Up to now the government has always rejected any state participation in a major private bank.

Together with the Deutsche and Dresdner banks, the Commerzbank has ranked for some time as one of the country's biggest private banks. Following its merger with Dresdner Bank and the simultaneous takeover of the Post Bank by Deutsche Bank, Germany now has two banking giants that will largely dominate domestic financial markets and will also be able to play a leading role on global financial markets. Via its involvement in Deutsche Post, a third of which is state owned, the government also now has a share in Deutsche Bank.

The participation by the state in these banks means a further consolidation of the interests of the financial elite and the policy of the German government. This applies to both domestic and foreign policy. The state will be expanded into an instrument of aggression aimed at implementing the interests of company managements and major shareholders by economic and military means, accompanied by protectionist and trade war measures.

The "socialization" of debt

The decision by the German government to take over part of Commerzbank for €18 billion drawn from the state purse is in response to the enormous losses revealed in recent weeks in the balance sheets of Commerzbank, and above all Dresdner Bank.

The latter was forced to write off a total of €1.83 billion last autumn in connection with its investment banking strategy. A majority of these losses were made by the Dresdner Bank subsidiary Dresden Kleinwort, which had sustained huge losses through its involvement in the US subprime market. Then last November it became clear that Commerzbank was facing similar problems.

Last year it also became clear that the banks had clearly violated existing financial control regulations with the explicit backing of the government and the state secretary at the Finance Ministry, Jörg Asmussen. The government retrospectively justified its stance by claiming that violation of regulations was necessary in order to ensure the competitiveness of the German financial sector.

Now the gaping holes in the banks' balance sheets are to be filled with taxpayers' money, although no investigation is to be made into how the losses came about and who is responsible. Nobody is to be held to account. Instead the consequences of the finance crisis are to be shifted onto the backs of the public, without any clarification of how the disaster developed or who was able to profit from it. It should be noted that the €18 billion for Commerzbank is nearly double the annual federal budget for education and research.

The price for these measures will also be paid by employees of both banks. Despite the billions in state funding, 9,000 jobs are to be shed through the merger of the Commerz and Dresdner banks. The government has already stressed it will not impose a veto or seek to "influence" Commerzbank management on its employment policy.

The main company to profit from the state rescue package for Commerzbank is the Allianz insurance company, which is valued at €500 billion and is one of the world's largest and most profitable insurance agencies. The company currently owns Dresdner Bank and would have had to take responsibility for the latter's losses were it not for the German government bailout.

Now the Allianz group must only bear a small part of the financial losses, as its debts have been largely redeemed by government. Allianz will buy Dresdner Bank's "poisoned" securities for €1.1 billion, plus an intermediate contribution of €750 million, at an interest rate of 9 percent. The purchase price of €9.8 billion agreed for Dresdner Bank in August has now been lowered to €5.1 billion. In return, Allianz is no longer required to take over a 30 percent share in Commerzbank. In future it will hold just 14 percent of the bank's stock.

The stock exchanges reacted promptly to the state bailout, with Allianz shares soaring within a few days by over 15 percent. The *Süddeutsche Zeitung* commented: "The brokers have a good nose for who is cutting a good deal. In the case of the partial nationalization of Commerzbank, including the former Allianz subsidiary Dresdner Bank, the Munich insurance company has been able to strike a great deal behind the scenes—at the expense of the public purse and therefore the taxpayer."

The paper notes that "the insurer from Munich is far removed from being an emergency case, it is rather one of the largest and most successful in the world—and reaps in billions of profits."

Competitors of Allianz described the state bailout as a scandal. The *Financial Times Deutschland* quoted one manager from a rival finance company who declared that the government was in effect rewarding the high-risk strategy of Allianz.

Although the government has declared it anticipates that its investment in Commerzbank will be reimbursed, any such repayment is highly improbable. Following the intervention of the government, the bank's shares slumped by nearly 25 percent and the total value of the bank is now calculated at less than €4 billion, i.e., one quarter of the sum of the state bailout.

It is broadly acknowledged that Commerzbank has no chance of repaying its debts and interest payments to the government. To repay merely the €18 billion it owes the state, the bank would have to repeat its past record profit result of €2 billion for nine years in a row. At the same time, it is widely expected that both Dresdner and Commerzbank will reveal further billions of losses.

In the long run, the treasury will be held to account for the losses. Berlin-based economics professor Henrik Enderlein does not believe that Commerzbank will ever pay interest rates: "The bank will protest and at some point receive debt relief like a developing country." Any such agreement on the part of the German government would be in flagrant violation of European Union regulations that prohibit such state subventions to companies and banks.

Strategic interests

The German government has made no secret of the fact that it is pursuing strategic interests with its participation in Commerzbank. It is taking similar measures to those already implemented in a number of other countries—the rescue and partial takeover of AIG, Citigroup and JPMorgan Chase in the US, the Royal Bank of Scotland in Great Britain, etc. A spokesman for German Finance Minister Peer Steinbrück stressed: "We want this strong bank."

The government had already played a role behind the scenes during the debate over the Commerzbank takeover of the Dresdner Bank in August 2008. At the time, the takeover was prevented by a Chinese bank, which had declared it was prepared to guarantee the jobs of the bank's 26,300 employees.

The government is also concerned about the status of German banks on the stage of international finance. On the stock exchange Deutsche Bank is listed at a value of just €14 billion and Commerzbank less than €4 billion, compared to the French Société Générale at €21 billion, Spanish Banco Santander with €55.4 billion and British HSBC with €76 billion.

An additional aspect of this latest decision by the government is the light it throws on the very close links between political circles and the finance sector. One German banker revealed to the *Financial Times* that the bank bailout fund was worked out with the participation of Klaus-Peter Müller, chairman of the supervisory board of Commerzbank, and was tailored to facilitate the merger of Dresdner Bank and Commerzbank.

Müller has sat on the executive committee of Commerzbank since 1990 and was the committee's spokesman between 2001 and 2008. In 2005 he was appointed president of the federal Association of German Banks and is regarded as the most important German lobbyist for banking interests after Joseph Ackermann, chairman of Deutsche Bank. Müller is a member of the Christian Democratic Union and enjoys close relations with German Chancellor Angela Merkel. In 2005 he was awarded the German army Medal of Honor (in gold) for, among other things, his commitment to improved relations between leading personnel in the army and the business world.

It therefore comes as no surprise that the government has now violated two of its own rules with its decision to intervene in Commerzbank. Firstly, the government had declared it was not prepared to invest more than €10 billion in any one financial institution, and secondly, that it would avoid any direct participation in a bank or credit institution.

In fact, the Commerzbank intervention by the state is indicative of the reaction by the German ruling class to the deepening world economic crisis. As was the case in the 1930s, it is adopting an increasingly aggressive stance against the German population and international competitors, aimed at securing the capitalist economic system and its main players.

The personal history of the second figure to play a leading role in the bank takeover speaks volumes. The grandfather of Martin Blessing, chairman of the executive board of Commerzbank AG, worked in the 1930s as an assistant to the Reichsbank president and Finance Minister Hjalmar Schacht. From 1939 to 1945 he was a member of the circle of friends of the Reich SS and was appointed economic director to the army. In 1941-45 he sat on the board of Continental Oil, which exploited southeast European oil depots to fulfill the needs of the German armed forces. After the war, he was able to portray himself as a member of the domestic opposition to Hitler and was appointed second president of the German Federal Bank in 1959, a function that he carried out for the next decade.