Germany: Berlin Public Transit faces dramatic financial losses

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The Berlin Public Transit Corporation (BVG) has recorded a financial loss of €247 million for 2008. The previous year, the corporation's deficit amounted to €62 million. Above all, the current deficit of nearly a quarter of a billion euros is a result of the state-owned company having to make provisions to meet potential claims from the US banks. These risks are due to so-called cross-border leasing (CBL) deals that now threaten to collapse as a result of the worldwide financial crisis.

The CBL model functions in the following way: German municipalities rent most of their infrastructure—urban transit system, roads, city halls, school building, civic buildings and canal networks—to enterprises in the US for the duration of several decades, then simultaneously lease them back. Under German law the municipality remains the legal owner. Under US tax law, however, the American enterprise becomes the economic owner and is able to write down the value of the facilities. These write-downs reduce the company's profit; less profit means having to pay fewer taxes to the Internal Revenue Service (US).

The resulting tax savings are then divided between the US company and the German municipality. It is not only the city government in Berlin that has sought to exploit this US tax loophole. Several hundred municipalities in Germany and across Europe are also involved in such arrangements. There is a consensus among politicians of all parliamentary groupings that the municipalities' increasing financial problems should be deferred to some indefinite future date utilizing the tricks of the capitalist system. However, the global financial crisis has undermined this opportunist policy.

These highly risky financial practices took the following form at BVG: In several instalments since 1997, by means of 22 separate transactions, some 511 trams (85 percent of BVG stock) and 647 underground trains (48 percent of BVG stock) were hived off to the now insolvent US insurance giant AIG through a CBL scheme, being leased back over a period of 12 to 30 years. In return, BVG received a one-off "cash benefit" of €68.9 million from the tax savings.

The institutions supporting the loans for the credit default swaps (CDS) linked to the leasing transactions included the state-owned Landesbank Berlin (LBB), the Hypo Vereinsbank and Credit Suisse. When the Berlin senate (city legislature) privatised LBB in 2007, selling it to the Sparkasse Group, it faced having its creditworthiness downgraded. Under clauses in the contract, the senate then had to find another bank with the highest AAA credit rating in place of LBB as a contracting partner. This was done in the form of the Landesbank Baden Württemberg. As is now known, in mid-2007 BVG—with the full support of its supervisory board, including trade union representatives from ver.di and Economic Senator Harald Wolf (Left Party)—decided upon the contracts that have now developed into a disaster for BVG.

On the recommendation of the American investment bank JPMorgan, the senate and BVG decided to secure the CBL contract by means of a registered parcel, a credit portfolio including several collateralised debt obligations (CDO) meant to provide collateral against some 150 different companies, institutes and investors. Among these were the now insolvent investment bank Lehman Brothers and various likewise insolvent Icelandic banks.

The bankruptcy of these different partners has now brought the house of cards tumbling down, and means that BVG, or rather the Berlin city legislature, will have to guarantee the entire debt of at least €157 million.

The role of the Left Party

Having shared government responsibility in the Berlin senate together with the Social Democratic Party (SPD) for eight years, the role of the Left Party is becoming ever clearer. Their politics represent continuity with the policies of the preceding city legislatures—the grand coalition of the Christian Democratic Union (CDU) and SPD (1990 to 2001) and the short-lived SPD-Green Party coalition of 2001.

Instead of denouncing these financial transactions and exposing their murky background, the Left Party has supported them unconditionally and has enabled them to continue. Like all the other parties represented in the Berlin Senate, the Left Party regards such dealings as a particularly clever ploy for wriggling out of financial difficulties.

The financial operations of the Berlin city legislature had already taken on particularly improper forms under the grand coalition in the 1990s, culminating in 2000 with the bankruptcy of the Bankgesellschaft Berlin. After the collapse of East Germany, Berlin became a haven for a small layer of nouveaux riches and other speculators. For years, a whole network of state and federal politicians became wealthy exploiting various funds and real estate deals at the expense of the publicly owned Bankgesellschaft Berlin, leaving the city legislature with a €60 billion mountain of debt.

Since the PDS/Left Party joined the SPD in the coalition in 2001 it has dropped all demands to shed light on the banking scandal and bring those responsible to account. Instead, it has swung in line behind the SPD and is determined to place the burden on the backs of ordinary working people in Berlin.

One of their first official acts was to endorse the €21 billion underwritten by the Berlin city legislature to guarantee the assets of the plundered banking company. Peter Strieder (SPD), who had profited from the privatisation of Bankgesellschaft Berlin, was even able to remain as senator for urban development until 2004, when he was brought down by the next scandal concerning the financing of Tempodrom, Berlin's prestige event location.

Things look no different now in connection with the current BVG crisis. In all the years they sat in coalition with the SPD in the senate, nothing was heard from the Left Party about these business arrangements. It neither exposed any of the dubious issues surrounding the contract nor expressed any criticism nor demanded an end to this practice. Most recently, the follow-up negotiations in 2007 would have provided an opportunity for them to do this.

The problems and risks associated with the CBL dealings have long been known. The Left Party certainly knew about these business operations and supported them. The Association of German Cities and Districts, a proponent of the CBL deals, had warned of the dangers in 2003: "If (the risks) are realized, the damage can be immense and far exceed the profit that accrued to the municipality".

According to the weekly *Die Zeit*, under the pressure to push through privatisations, approximately 700 municipalities in Europe have invested public money in the "financial casino" of the "free market". The banks have advertised their derivatives and other financial products with glossy prospectuses, technical periodicals and in specialized seminars for city treasurers, promoting them as modern instruments for "active local debt management".

Leipzig has privatised the most public property by means of CBL of any European city. Wolfgang Tiefensee (SPD)—who today is federal transport minister—presided over the sale of Leipzig's water companies and water pipelines, trade fair facilities and meeting halls, hospitals, trams, railway systems and sewage treatment and water purification plants to US investors for €100 million, and then leased them back again in a 30-year deal. The financial crisis also saw Leipzig engage in further dubious transactions to provide guarantees for the debt repayments.

Local politicians as lackeys of the financial oligarchy

In the *Frankfurt Review* last September, Winfried Fuest, from the Institute of the German Economy in Cologne, warned: "The crisis can affect all CBL dealings...the cities may have to provide guarantees for the failing banks and insurers that are involved in the operations...existing collateral is useless if the guarantor becomes insolvent".

In public, those responsible for these dubious financial affairs are presented as victims. But such an interpretation falls far from the mark. The active participants include politicians such as Berlin Finance Senator Thilo Sarrazin and Economics Senator Harald Wolf, as well as union representatives on the supervisory board. They are representatives and members of a wealthy and thoroughly corrupt elite.

Sarrazin, who is joining the board of the Bundesbank (Federal Bank) later this year, has made a name for himself in bourgeois circles as a hardnosed administrator of austerity measures. In view of the additional costs faced by the crisis-ridden BVG, he cynically intoned: "If you fly anywhere, you entrust yourself to complicated technologies that you are unable to comprehend. If you write a text on your laptop, then you also don't know exactly how it works. Everywhere in the world we live, we trust things that we do not understand. That is also a bit like things in the financial system".

Mirroring the enrichment of the elite, Sarrazin, together with the Left Party and the SPD, have transformed Berlin into the capital of the poor and the homeless. While the financial elite have reaped ever-greater profits, one in three children in Berlin lives in poverty; a quarter of a million are unemployed; tens of thousands work for low wages; and the welfare state is disappearing.

The Left Party is praised by Berlin Mayor Wowereit (SPD) and Sarrazin, who told *Die Welt Online* that recent years have shown that the Left Party in Berlin is a "coalition partner capable of decision-making, action and compromise".

The Left Party plays a key role in shifting the burden of the financial crisis onto the backs of ordinary working people. It has supported the federal government's €500 billion rescue package for the banks, as well as a Berlin rescue package currently being prepared. The leader of the Berlin Left Party, Klaus Lederer, said, "The Left Party in Berlin believes that state intervention, as in the case of the financial market stabilisation law passed today, is urgently needed in order to prevent the uncontrollable spread (of the crisis) into the sphere of the real economy...". Economic Senator Harald Wolf added, "Without the rescue package, the situation would be far more devastating. Therefore we will participate constructively in its arrangement".