German “bad banks” plan to boost financial profits

Stefan Steinberg
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Leaders of the German government and the president of the central bank agreed on plans Tuesday for the creation of a series of so-called “bad banks” to bail out the country’s ailing banking system.

The agreement reached in Berlin by Chancellor Angela Merkel (Christian Democratic Union), her finance and economics ministers, Vice-Chancellor Frank-Walter Steinmeier (Social Democratic Party) and Bundesbank head, Axel Weber, will saddle the German tax payer with a potential bill of up to €1,000bn (US$1,300bn) over the next twenty years. This comes on top of the earlier €500bn bank rescue fund set up by the government to aid Germany’s banks.

The final details of the bank bailout must be hammered out in the next two weeks in order to allow deputies to agree to the deal before the parliamentary summer recess and this autumn’s federal election. The bad bank proposal follows similar measures taken by the United States, Britain and Ireland and comes in the wake of huge domestic and international pressure from business and finance lobbies that Germany was not doing enough to help its banks.

At the beginning of the week the Federation of German Industry (BDI) urged the government to act swiftly to encourage banks to lend to large companies and in an interview with the business daily *Handelsblatt* on Monday, International Monetary Fund chief Dominique Strauss-Kahn warned that Germany and other countries were being much too tardy in taking measures to re-stabilise their banks.

According to finance ministry estimates reported on Tuesday by the *Frankfurter Allgemeine Zeitung*, German banks have as much as €853bn (US$1.1 trillion) of toxic assets on their books that are either worthless or cannot be currently sold.

The proposal put forward at the Berlin meeting by Finance Minister Peer Steinbrück (SPD) involves the creation of a number of individual “bad banks” where banks can deposit their toxic assets.

As well as creating a number of smaller bad banks instead of one central bad bank Steinbrück’s plan also distinguishes between “toxic” (i.e. completely worthless) assets and “illiquid” assets, i.e., assets alleged to have some worth and which could possibly be sold in the future.

A second plan put forward at the meeting by the CDU proposed the setting up of a so-called Aida, or “agencies-in-the-agency,” model, which would allow state-owned banks in particular to transfer their toxic assets to individual “agencies” within a public-sector holding. Since they would not be subject to banking regulations these agencies would not be required to set aside regulatory capital.

In fact, the main purpose of the complex proposals is to mask the real content of the government’s plan. According to Finance Minister Steinbrück the models under discussion meant the government (and taxpayer) was not assuming responsibility for these debts but merely acting as a “guarantor.”

The reality is that under conditions where the German economy is plunging into its worst economic crisis since the 1930s the public is being saddled with unparalleled levels of debt. Should the proposals under discussion be agreed by the parliament in May, the banks would be handed a sum exceeding €15,000 for every man, woman and child in Germany.

Business newspapers generally expressed their satisfaction with the results of the meeting held in Berlin, but were also quite clear as to its purpose. According to the *Financial Times Deutschland*: “Nobody should be deluded by the tarted up assurances of the Finance Minister or the trite demands made by the opposition. The transfer of risks is the sole sense and purpose of this exercise.”

And the British *Financial Times* quotes one source close to the German government saying, “In the end, the government, meaning the taxpayer, will be covering most of the losses—there’s no way around that and it does not make the plan an easy sell when there’s a general election five months away.”

The final details of a deal still have to be worked out by mid-May but all the participants expressed their

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determination to move as quickly as possible to finalise the plan. In recent weeks there has been a spate of conflicts between the partners in the grand coalition government (CDU, Christian Social Union, SPD) as the various parties jockey to establish their profile for the federal election due on September 27. However, all parties were agreed on the necessity for another massive bailout of the banks at taxpayer expense.

Economics Minister Karl-Theodor zu Guttenberg (CSU) told reporters after the meeting, “We made a big step forward,” while Finance Minister Steinbrück stressed, “There is a broad consensus among the group that we should work quickly to get a law in place during the current legislative period.”

“The core of the government”

The meeting between government leaders and bankers made clear the extent to which all of Germany’s political parties, including the official opposition, function at the beck and call of the country’s leading banks and financial institutions.

Political decisions affecting the lives of generations of Germans are being taken by a small clique of bureaucrats and financiers who pass on their decisions to the country’s political elite for implementation.

In the autumn of last year as the finance crisis was beginning to unravel, the head of Deutsche Bank, Germany’s highest paid banker, Josef Ackermann, clinched a deal in a personal telephone call with the German Finance Minister for the country’s first major bailout package—€27 billion for the stricken Hypo Real Estate (HRE).

Since then the Merkel government has stepped up its investment in HRE to a total of €102 billion in debt guarantees, and further assistance is being prepared in line with plans for the government to take over the bank completely. All of these proposals, including the government’s first €500 billion rescue program for the banks, have been drawn up by a small circle of non-elected officials working closely together with the big banks and other financial institutions.

The role of such officials was highlighted in the latest edition of *Der Spiegel*. An article titled “The core of the government” begins as follows, “A discrete circle of top officials directed the rescue program in the finance and economic crisis. The officials have control over hundreds of billions of euros and decide the fate of entire branches of industry. Parliament has barely anything to say.”

The article declares the official institution set up recently by the German government to supervise its rescue packages for the banks (Soffin) to be impotent and states that only one other body is even more powerless—the appropriate parliamentary supervisory committee. The article goes on to point out that many politicians are quite happy to accept such a state of affairs because any effective examination of the bank rescue packages would reveal the extent to which the public was being forced to pay through the nose for the massive speculative excesses of the banks.

Real power lies in the hands of a small group of bureaucrats. After describing the work of four leading state secretaries in some detail the article then comes to the conclusion: “Never in the history of the German Republic have officials possessed such a degree of power. Never have elected members of government delegated so much power to decide to the co-workers in their ministries. And never has there been such concern at the fact that the decisions taken by a group of state secretaries so one-sidedly serve the interests of the finance industry.”

It is this small group of bureaucrats and lobbyists that determine the main planks of government policy and played the main role in drawing up the plans discussed at Tuesday’s meeting in Berlin. It is they who decide that extra hundreds of billions of euros be diverted to guarantee the profit levels of the banks while entire branches of German industry and the jobs of hundreds of thousands of workers are put on the line.

Nothing demonstrates more graphically the advanced state of decay of the democratic process in Germany than the concentration of power in the hands of this tiny elite acting at the behest of the banks.

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