Germany: The Berlin Senate, the Left Party and international hedge funds

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In 2005, Franz Müntefering, then chairman of the Social Democratic Party (SPD), disparagingly referred to international hedge funds as "locusts". Since then, the SPD and the Left Party have sought to exploit every election campaign to denounce these "locusts", claiming that they would never sell public utilities or housing to speculators.

A closer look at Berlin, however, makes clear that these "locusts" have found rich pickings in the German capital, where the Senate has been governed for the past eight years by a coalition of the SPD and the Left Party.

The process started with the privatisation of the Berlin Water Utility, under the previous Conservative Democratic Union (CDU)-SPD city council. This led to drastic increases in water bills, reduced investment, lower wages for employees and 1,000 redundancies.

With the privatization of the Co-operative Housing and Building Society (GSW), a housing co-operative estate founded in 1924 that used to be the biggest in the country, the Berlin Senate SPD-Left Party coalition has gone much further than its predecessor.

In 2004, the Berlin Senate sold off the GSW to Wall Street firms Goldman Sachs and Cerberus Capital Management. One of the financial consultants employed by Cerberus is the former SPD chairman Rudolf Scharping. Scharping is paid for this work—which amounts to a fortnightly teleconference and attendance at a meeting in Frankfurt every six weeks—with a €125,000 annual salary, not including performance bonus.

The Berlin Senate decided to sell off its biggest public housing construction enterprise to private investors in order to finance a budget deficit that had been caused by a notorious banking scandal. In 2001, the Senate bailed out the Berlin banking consortium (Bankgesellschaft Berlin) with €1.7 billion and committed €21.6 billion to them as surety against future losses. This increased the individual debt burden of Berliners to about three times the national average. Twelve percent of the Berlin budget now goes toward paying interest on loans.

Cerberus and Goldman Sachs paid Berlin €405 million for the GSW and in return became owners of 65,000 residential flats. That is a price of slightly more than €6,000 per flat, about a tenth of the usual market price. Even if one takes into account the average debt burden per flat of €24,000, the terms of the deal are entirely on the side of the Wall Street firms. The investors knew how to take advantage of it.

In 2009, the two companies made a profit of €447 million from the GSW. To achieve this profit, they sold 15,000 flats at an average price of €50,000. They also raided the coffers of the GSW, which had swelled with funds thanks to average rents and reduced maintenance costs.

After just five years, Cerberus and Goldman Sachs had already recouped the purchase price with a bonus of ten percent. Moreover, they still own 50,000 flats and manage a further 20,000. The market value of the enterprise has risen by €800 to 900 million, i.e. double the original purchasing investment. This is due to the consortium's policy of systematically increasing rents by between 2.5 and 3 percent every year. The basic rents of GSW flats have thus increased twice as quickly as the average annual rise of 1.4 percent in Berlin.

Because rented flats are being sold into private ownership, affordable rented accommodation is dwindling and the price of rented accommodation is rising. The average rent in Berlin has risen by 4.5 percent over the last year. The biggest rent rises have occurred in the Friedrichshain-Kreuzberg district, an area where young people like to live. Rent levels there have risen by 7.2 percent. At the same time, the residents have the lowest disposable incomes. This has led to people being squeezed out, clearing the way for the transformation of their former homes into luxury residences.

Despite huge profit taking, Cerberus and Goldman Sachs decided to put the remaining GSW flats on the market. To do this, they first had to get the agreement of the Berlin Senate. A condition of the 2004 purchase agreement was that, through 2014, only a maximum of 49.9 percent of the property could be sold without permission of the Senate. This clause in the contract caused the investors to threaten to do just that—sell 49.9 percent this year, wrecking their deal with the city council, leading to immediate job losses, the closing down of the GSW headquarters in Berlin and corresponding reductions in business tax income for Berlin.

The Left Party and the SPD subsequently bowed to this pressure and gave permission for the firms to put the GSW on the stock exchange. The finance minister, Ulrich Nussbaum, cynically justified this decision by saying that Berlin could now rejoice at seeing the investors leave. The coalition was supported in this decision by the Free Democratic Party (FDP) senators, who stand for unrestrained neo-liberalism.

The Berlin Tenants Association had campaigned for senators to vote against the proposed decision. “GSW privatisation is not compatible with the aims of solid property maintenance and long-term provision of affordable housing”, wrote its chairperson. The CDU and Green Party senators were able to vote against the proposals and even express their concerns for tenants, without thereby endangering the privatisation.

The Senate used the argument that a vote for the sell-off would bring an additional €30 million into the state coffers. Nussbaum said that €10 million would be reserved for tenant protection and neighbourhood development funding. That has yet to be seen. However, a further expense of €5 million will be necessary for retrospective budget costs. But the finance minister did not mention this in his speech to the Senate.

Compared with expected future profits, the €30 million cost of the deal amounts to very little. Finance experts estimate that Goldman Sachs and Cerberus will get between €230 and 350 million on the stock exchange. Some €140 million of this will be used to consolidate GSW fixed capital, and the rest will go into the pockets of the investors. Furthermore, the latter want to retain 37 percent of the GSW shares, whose estimated total value of €950 million could rise by a predicted €350 million.

The GSW was put on the stock market on May 3. Goldman Sachs and Deutsche Bank AG of Frankfurt were hired to lead the sale. In the event, Goldman Sachs and Cerebus postponed the float, claiming that "increased market volatility" made it unsuitable to do a deal at the time. The stock had been scheduled to start trading on the Frankfurt Stock Exchange on May 7. The postponement of the launch coincided with the revelations in America of the thoroughly criminal practices of Goldman Sachs in relation to the sub-prime crisis.

In the face of outraged criticism of this privatisation agreement from tenants and their electors, the Left Party meekly admitted that the original sale of GSW in 2004 had been a mistake. The party sought to cover its tracks by claiming that it was seeking to expand the original 2004 agreement to include some protection clauses for tenants. However, these protection clauses are only valid until 2014. After this, the profit interests of shareholders will even more predominantly outweigh tenant interests.

Prior to been sold off to the hedge funds in 2004, the GSW conducted a state-wide publicity campaign under the motto "GSW—good and secure accommodation". Berlin tenants can thank the SPD and Left Party politicians for ensuring that such accommodations are a thing of the past.

The financial links between two notorious hedge funds and the Berlin Senate reveal above all the utter hypocrisy of the Left Party, which only recently issued a draft program calling for the nationalisation of the banks. The representatives of the Left Party voted in favour of fast track measures in the German parliament to rescue German banks in 2008. Just a few weeks ago they agreed to a similar procedure to ensure the rapid implementation of the bailout package and attendant demands for austerity measures in Greece. German banks and international hedge funds have long since learnt that they have nothing to fear from the German Left Party.