Germany's Deutsche Bank in crisis

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After a record loss of €6.8 billion in the 2015 business year, Deutsche Bank's shares have plunged in value by 35 percent in the first weeks of 2016, reaching their lowest level since 2008. By comparison, even in the year of the 2008 financial crisis, the bank's losses amounted to only €3.9 billion. The bank's share price, which at one time was above €100, is currently moving between €13 and €16.

Amid sharp drops in the stock prices of other European banks, leading financial newspapers are reporting "panic on the markets" and "the return of fear," and asking if the world economy stands on the brink of "the next crash."

In a bid to settle the unease, John Cryan, chairman of board of Deutsche Bank, claimed in a public letter to bank employees that "Deutsche Bank, given its capital strength and its risk position, [is] absolutely rock solid." Finance Minister Wolfgang Schäuble reassured US financial outlet Bloomberg TV that Deutsche Bank was giving him "no concerns."

These assertions had the opposite effect. The very fact that Cryan felt the need to make such a statement was seen as a sign of weakness. Comparisons with the US financial crisis in March of 2008 were made, when investment bank Bear Stearns insisted that rumours about liquidity problems were "absolutely untrue," before being taken over four days later by JPMorgan Chase in order to prevent a total collapse.

Deutsche Bank and the German state

Notwithstanding its name, Deutsche Bank was always purely a private bank. However, its history is closely bound up with the emergence of Germany as an economic and political great power, and all of the problems, crises and crimes connected to this. Since the bank's founding in March 1870, its interests and those of the German state have overlapped. In its founding statement, the bank set itself the goal of "finally conquering a position for Germany in the field of financial transactions…" The cornerstone was thus laid for the financing of imperialist expansion in Asia, Africa and South America.

Along with international expansion, Deutsche Bank financed leading industrial concerns such as Krupp, Siemens, Mannesmann, Bayer, BASF, AEG, Thyssen and several mining concerns. Under its guidance, the merger of Daimler and Benz was carried out in the 1920s, as well as the merger of Aero Lloyd and Junkers to form Lufthansa. Its directors and board members were represented on the supervisory boards of many companies.

Hermann Josef Abs, whose career at Deutsche Bank began under the Nazis with the "Aryanisation" of hundreds of Jewish firms as well as the financing of the arms industry, pursued the goal of recentralising the bank after it had been broken up into 10 regional institutions at the end of the Second World War. The growth of the export economy increased the need for a strong bank, which was realised with the founding in 1957 of Deutsche Bank AG, with headquarters in Frankfurt.

Deutsche Bank sought to obtain a stake of at least 25 percent in all important firms, since the earnings from dividend payments were then tax free. Like other board members at Deutsche Bank, Abs was represented on the supervisory boards of dozens of industrial firms.

The close connections between bank and company boards, which controlled and protected each other, became the hallmark of "Rhein capitalism," or the "social market" economy. It was characterised by the fact that the banks, rather than the stock market, determined financial affairs, and a balance existed between shareholders and boards. The trade unions were integrated into this network via industrial co-determination.

From a business bank to speculation

The globalisation and financialisation of the world economy since the 1970s undermined this business model. To maintain its position in the vastly expanding financial markets, where the big profits were made, Deutsche Bank had to loosen its ties with industry and intervene in the business of global speculation. In this, Deutsche Bank led the way.

With the takeover of London-based investment bank Morgan Grenfell in 1992, as well as the New York wealth management service Bankers Trust in 1999, Deutsche Bank sought to close the gap with the much stronger investment banks on Wall Street and in London. However, the attempt to take over Dresdner Bank and its investment subsidiary Dresdner Kleinwort Benson (DKB) in April 2000 failed due to opposition from Deutsche Bank's investment subsidiary in London, Deutsche Asset Management.

The expansion of Deutsche Bank was closely associated with Swiss banker Josef Ackermann, who led the bank from 2002 to 2012 and for the first time replaced the collective leadership model with the single chairman of the board. Under his leadership, the bank's hubris knew no bounds. He announced in 2005 the goal of increasing capital investment returns to 25 percent.

Despite the relocation of the bank's activities to the global speculation market, close relations remained with the German chancellor's office and industrial concerns. During the 2008 banking crisis, as the German government made hundreds of billions available to secure the banks, Ackermann was among Merkel's closest advisers. In April 2008, she even invited him to celebrate his 60th birthday with a banquet in the chancellor's office.

Like German industry, the German government requires an internationally active bank to pursue its imperialist interests. As Deutsche Bank’s share price fell ever further, the predominant concern in the financial press was the international consequences rather than the immediate financial losses.

As the *Frankfurter Allgemeine Zeitung* wrote in early February, “German companies do not want to have to rely only on American investment banks. During takeovers abroad, they want to know that they have a dependable partner from their home market on their side. This role cannot be assumed by other German banks like Kommerzbank. The German economy desires a healthy Deutsche Bank.”

In industrial circles, there is great concern that their activities abroad could suffer as a result of Deutsche Bank’s crisis. “German companies heavily engaged abroad require a large German bank to open access for them to markets in Asia and America,” warned the *Frankfurter Allgemeine Zeitung*. The newspaper cited the business director of the German Chamber of Trade and Industry (DIHK), Martin Wansleben, as saying, “We are of course worried about what is happening there.”

These concerns are increasing with the threat of a breakup of the European Union. “In the most extreme case, Europe will be torn apart between the global players of the United States, China and Russia like a piece of Parmesan in the cheese grater,” capital markets expert Robert Halver from Baader Bank told *Handelsblatt*.

Deutsche Bank is not an isolated case. “It is an illusion to believe that the banks coped with the 2008 crisis,” *Der Spiegel* wrote in a recent article on the banking crisis entitled, “A spark is enough”.

The gigantic sums that central banks pumped into the financial system with their low interest policies temporarily prevented a complete collapse and pushed stock prices significantly higher. However, the imbalances in the world economy, the huge financial bubbles and the shifting of business activity to purely financial and speculative operations, which triggered the 2008 crisis, have intensified.

In the context of a sharp economic downturn in China and other emerging economies, falling prices for raw materials, the political consequences of the wars in the Middle East, the intensifying conflict between the United States and China as well as the crisis of the European Union, the entire financial system is once again at risk of collapsing like a house of cards.

The European banking system in particular is mired in deep crisis. Several Italian banks confront the threat of bankruptcy. The financial crisis in Greece could break out again at any moment. In the euro zone, according to *Der Spiegel*, toxic assets have doubled since 2008 to a value of €1 trillion.

The concentration and interdependence of the banking business have also intensified, increasing the fragility of the entire financial system. A study by ETH Zürich on the influence of tens of thousands of transnational corporations came to the conclusion in 2011 that 147 companies controlled 40 percent of the total monetary value of transnational corporations (TNCs).

The most powerful of these companies include the Wall Street and London banks, as well as a handful of European financial institutions, among them Deutsche Bank. Connections within the banking system are so intertwined that the bankruptcy of one could be enough to bring down the whole system.

Criminal methods

Another reason for the crisis at Deutsche Bank is the criminal methods with which it and many other banks have amassed wealth—methods that helped trigger the 2008 financial crisis. Since 2012 alone, Deutsche Bank has been compelled to pay some €12 billion in fines.

An additional €4.8 billion has been set aside for further legal proceedings. These include accusations of money laundering in its dealings in Russia as well as breaches of political sanctions in Iran. Investigations continue in the United States into its mortgage business prior to the financial crisis and the manipulation of the Libor and Euribor interest rates. Compensation payments related to the bankruptcy of the Kirch media concern will cost the bank approximately €1 billion.

In addition, a trial of bank employees over “serious bank-related tax evasion” in the trading of CO2 emissions certificates is currently ongoing.

Deutsche Bank is also heavily involved in the risky financing of energy companies that are facing difficulties in making interest payments and loan repayments as a result of declining energy prices. Since the volume of “troubled loans” is concealed in the companies’ balance sheets, nobody can estimate the extent of the risk to which the bank is exposed. This is not only the case with Deutsche Bank, but also many other European financial institutions.

Another indication of the scale of the risks is the increased price of credit default swaps (CDS), derivative investments that serve as insurance against defaults. Since January 2016, CDS premiums for Deutsche Bank have more than doubled.

These are, in summary, the main reasons for the fears of collapses and sudden sell-offs gripping the financial markets, which, in the space of a year, have led to a halving of Deutsche Bank’s market value to €20 billion.

“Investors have lost all trust not just in Deutsche Bank, but in all European banks and perhaps even the entire financial and economic system,” was *Der Spiegel’s* main message.