Deutsche Bank crisis: Germany and US accuse each other of economic warfare

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4 October 2016

In an intensification of transatlantic tensions, German politicians have accused the US government of waging economic war against Germany's leading financial institution, Deutsche Bank.

On Friday, Deutsche Bank shares fell below €10, their lowest level since 1983, in the ongoing fallout from the demand by the US Department of Justice that the bank pay $14 billion to settle claims relating to its sub-prime mortgage business in the years leading up to the 2008 financial crash.

Responding to the bank's crisis at the weekend, Peter Ramsauer, chairman of the German parliament's economics committee, told the German newspaper *Welt am Sonntag* that the US Justice Department's move against Deutsche Bank "has the characteristics of an economic war."

Denouncing Washington's "extortionate damages claims" against the German bank, Ramsauer said the US had a "long tradition" of waging what amounted to trade war "if it benefits their own economy."

Ramsauer's comments were backed by Markus Ferber, a deputy in the European Parliament and, like Ramsauer, a member of the Christian Social Union (CSU), the Bavarian sister party of the Christian Democrats. Ferber told *Die Welt* that the timing and size of the Justice Department's claim suggested a "tit-for-tat response" to the recent European Union decision to demand that Apple pay €13 billion in back taxes.

Following the EU decision on Apple, US Treasury Secretary Jack Lew complained that the penalty on Apple was a new form of protectionism directed against American companies. He warned that the US would consider retaliatory measures.

Lew's threats were endorsed by John Engler, president of the influential US Business Roundtable, who accused the EU of a "reckless and dramatic overreach that constitutes a new and dangerous form of protectionism." Engler sent an open letter to the leaders of all of the EU's 28 member states demanding that the tax demand on Apple be rescinded.

A recent commentary in the *Wall Street Journal* sided with Engler and linked to his open letter. In an opinion piece titled "Vestager Gets Vindictive," the newspaper accused EU Commissioner Margrethe Vestager, who lodged the claim against Apple, of "turning the European Union into a banana republic on high-speed rail for imposing retroactive tax hikes."

In the wake of the massive fines imposed by the US on German automaker Volkswagen and the negative comments by German Economics Minister Sigmar Gabriel regarding the US- promoted Transatlantic Trade and Investment Partnership (TTIP), the former US ambassador to Germany, John Kornblum, warned of a "dangerous populism in both the new and old worlds." He continued, "We could be entering the last chapter of our transatlantic vision of hope."

While the latest outbreak of transatlantic hostilities revolves around the perilous state of Deutsche Bank, it is not the only bank facing collapse.

Writing in the *Telegraph* on Saturday, journalist Jeremy Warner warned, "It's not just Deutsche. European banking is utterly broken."

He wrote: "All eyes are naturally focused on the specific problems of Deutsche Bank, but Deutsche is in truth no more than the canary in the coal mine." He quoted Tidjane Thiam, chief executive of Credit Suisse, who stated last week that "as an entire sector," European banks are still "not really investable."

Warner went on to say that one of the main problems facing European banks was US taxing of European banks, backed by the threat of removing dollar clearing licenses if the banks did not comply. As for the penalties demanded by the US, the “fines seem to be assessed almost wholly on ability to pay rather than the extent of the misconduct itself.”

Why should banks raise extra capital, Warner argued, “when you know it will just get snaffled by the US Department of Justice?”

Politicians in Germany and throughout Europe are acutely aware that following the massive bailouts of 2008-2009, any further funding for the banks is, to quote one *Financial Times* article, “political poison.” A recent poll in Germany revealed that fully two-thirds of the population oppose any further government funding of the banks.

Last week, German Chancellor Angela Merkel was compelled to deny claims that her government was planning a rescue package for the bank, and on Friday, Eurogroup President Jeroen Dijsselbloem stated that Deutsche Bank had to survive “on its own,” without assistance from the German state.

German Economics Minister Gabriel, who heads the Social Democratic Party, wrote a memo to the CEO of Deutsche Bank criticising both the bank’s speculative practices and “forces in the market” trying to destabilise the bank. “I didn't know whether I should laugh or be furious that a bank which turned speculation into a business model now declares itself the victim of speculators,” Gabriel wrote. “I'm really worried about the people employed at Deutsche Bank.”

In reality, Gabriel does not give a hoot for the staff at the bank, and his comments regarding speculation are thoroughly hypocritical. It was his own party in government that introduced two key laws to exempt the taxation of profits from the sale of capital investments and permit the operation of hedge funds in Germany.

Speculators are wary of the consequences for their own operations of a collapse of the world’s fourth biggest bank. On CNBC’s “Power Lunch” program, US financial analyst Larry McDonald declared that the parallels between Deutsche Bank and the failed US investment bank Lehman Brothers sent chills down his spine, “because we’re in a very similar dynamic.”