British insanity rules Deutsche Bank

William Engdahl analyzes the takeover of Germany's largest bank by the "British Party," and how this shift is wrecking the German economy.

When he was chairman of Deutsche Bank, the late Hermann Abs once explained his long-term goal for Germany's largest bank to fellow members of the bank's executive board. He said that he sought to mold the postwar Deutsche Bank into "a mixture of Barclays and Hambros," the former, the largest commercial bank in Britain, and the latter, one of the oldest influential British private merchant banks.

Unfortunately, Abs's dream is today the reality.

Today, five banks—Deutsche Bank, Dresdner Bank, Commerzbank, Bayerische Hypo, and Bayerische Vereinsbank—control almost every major policy decision over German industry and the public sector. These banks, acting with no controls by democratically elected governments, impose the terms on which the federal or local governments can finance their operations. They determine which industrial firms will survive, and which will be forced to close their doors. They determine the levels of employment in major companies, and, increasingly, levels of unemployment in society, as the small and medium-size industrial firms—Germany's famous *Mittelstand*—are systematically destroyed.

Over the past five years, especially since the assassination of Deutsche Bank Chairman Alfred Herrhausen in November 1989, the guiding policy and philosophy of these powerful financial institutions has undergone a catastrophic change. Today, it can be said that the "British Party" in Germany, which espouses British free market economics, as opposed to the traditional German system of fostering long-term, stable growth of industry, is headed by the Big Five banks and the groups in their orbit.

The costly 'education' of Deutsche Bank

As recently as 1993, Deutsche Bank head Hilmar Kopper told a conference of international bankers in Canada that, so long as he was in charge, Deutsche Bank would "never" become a major financial derivatives bank (the highly speculative, multitrillion-dollar derivatives bubble is one of the hallmarks of London and Wall Street finance today). Only two years later, Deutsche Bank had become the most aggressive derivatives bank in Europe, paying six-digit bonuses to hire entire derivatives trading groups from London and New York banks, in order to build its presence in the exploding and highly risky $47 trillion market in financial speculation.

The education of Deutsche Bank and of German companies it controlled in this new world of derivatives was costly. In December 1993, details leaked out, of a staggering DM 2.7 billion [$1.8 billion] derivatives loss by MG Corp., the New York subsidiary of the huge Metallgesellschaft group, whose board naturally included its largest shareholder, Deutsche Bank. The New York MG Corp. had written derivatives contracts based on their estimate of what gasoline prices in the United States would be ten years hence, a gamble so outlandish that even experienced derivatives high-rollers would never risk it. The persons involved from Metallgesellschaft insisted that Deutsche Bank was informed every step of the way. Today the company is beginning to recover, but only after thousands of jobs and major parts of the company had vanished. It was a costly "learning experience" for Kopper's new plunge into the derivatives game.

Then, only two months later, in February 1994, Deutsche Bank client Jürgen Schneider, the giant real estate and construction entrepreneur, disappeared, leaving behind debts of DM 5 billion among the 120 companies he controlled. Hilmar Kopper remarked that the size of the Schneider losses, compared to the bank's overall assets, which were well over DM 523 billion, were "peanuts." But the roasting of those peanuts, along with Metallgesellschaft, MAHO, and yet new derivatives losses at Deutsche Bank client Balsam AG, was proving expensive.

Commenting on the disasters at Deutsche Bank, one of the bank's directors recently remarked: "Deutsche Bank—in fact all the large German banks—are undergoing an entire transformation in the way we view banking. We are going from a traditional German *Grossbanken* model, over to the Anglo-Saxon style of global banking. A lot of mistakes are the result of this shift."

The tradition of 'Rhineland capitalism'

In the last century, after 1880, Deutsche Bank, Dresdner, and the predecessor of Commerzbank, formed a distinct alternative to the British-centered banking world. Deutsche Bank and German industry grew and prospered to become among the world's leaders, in a dramatically brief time span, precisely because they rejected the British model of banking and finance.

Rather than a regime where immediate money profit was the only goal, German banks invested long-term in the building up of key industrial companies: Siemens, AEG, Daimler-Benz, and Hapag-Lloyd epitomized this process.

Their initial capital came in the form of credit from the bank, along with Deutsche Bank's purchase of a major share of the stock in the new or growing companies. Those shares, core holdings, were to remain in the hands of Deutsche Bank, binding the bank's future with the industrial company. Deutsche Bank, under the leadership of men such as Georg von Siemens and Karl Helfferich, played the leading role in financing large railway infrastructure projects, most notably, the Berlin-Baghdad Railway in the period before 1914—a project which constituted an enormous strategic challenge to British imperial domination of Eurasia.

Decisions of the bank were made, not on the basis of quarterly shareholder returns, but in the interest of long-term development of the particular industry and the nation. This enabled German industry to invest in and develop the most advanced technological base in the world by the turn of the century, while British banks were reeling from economic depression and the near-fatal speculative collapse of Barings Bank in 1890.

German banking's model was simultaneously adopted in Switzerland, France, and Sweden by the turn of the century. Development of a strong, healthy industrial base was the objective, not to make "money from money" as in the British banking world. Under the Rhineland model, industry prospered by paying its workforce the highest wages, in order to develop the greatest productivity. Cheap labor was to be avoided as a self-defeating, short-term expedient, which undermined long-term development.

Germans were rightly proud of their model of "Rhineland capitalism," as the French termed it. By the 1980s, they could point with disdain to the Britain of Margaret Thatcher's "free market" banking model, with its wave of speculative disasters, the industrial destruction, unemployment, and urban rot. By 1990, British banks were in the deepest crisis since World War I, as speculative real estate and Third World debt lending collapsed.

Dramatic changes

But by 1993, as Germany's economy also collapsed, in the sharpest recession in postwar history, the Big Five banks began to make dramatic changes. They were the ones leading the push for an attack on the German high-wage and social welfare system.

During 1993, Deutsche Bank economist Norbert Walter published a book, *Der neue Wohlstand der Nation* (*The New Well-Being of the Nation*), in which he savaged the German social welfare model, demanding the country turn to "free market" social Darwinism.

In an interview on Oct. 28, 1993, in *Die Woche,* Kopper praised the debate, then beginning, surrounding the so-called competitiveness of the German economy as "finally a step by the politicians in the right direction." Commenting on the alarming rise in unemployment, Kopper callously said, "There exists plenty of work in this country. Only 52% of those employed are working in the service sector."

Kopper then sardonically suggested where unemployed engineers, machinists, and craftsmen persons should look for jobs: "In Germany, it isn't considered chic, it's not desirable to work in a restaurant or a bar, and to have flexible work hours, even possibly to have to work during weekends. We have literally millions of workplaces, which are no longer wanted by Germans. Thank God that foreign *Gastarbeiter* take those jobs."

This was the signal to anyone who still doubted, that the transformation of Germany's big banks to the British model was in full force. On June 26, 1996, Deutsche Bank announced that it planned to end the century-old practice of retaining major stakes in industrial companies, and that it would begin by sharply reducing its core holding in Germany's largest industrial company, Daimler-Benz. In explaining the historic decision, Deutsche Bank's head of finance, Jürgen Krumnow, declared that the bank's involvement with companies such as KHD, Daimler-Benz, or Holzmann AG, which paid no dividends, confirmed that industry ownership "is truly no longer pleasing, even were Daimler-Benz or Holzmann rapidly to resume paying dividends again."

For a long time, not only have traditional large industries, but also the vital *Mittelstand* become victims of the British revolution in Frankfurt banking. The orgy of cutting bank credits or recalling loans from thousands of *Mittelstand* companies reached such a pitch this February, that Klaus Bregger, chairman of the *Mittelstand* and Economic Association (MIT) for the ruling Christian Democratic Party, publicly excoriated it. Money is the "bottom line" in this banking transformation, not entrepreneurship.

Marriages made in London

Deutsche Bank and the other major German banks have intermarried with the most influential financial firms of the City of London in the past years.

Deutsche Bank broadcast the full transformation as well in early 1995, when it announced that it was moving its entire Frankfurt merchant banking operation to London, where it would merge with its daughter merchant bank, Morgan Grenfell. In addition to the City of London's Morgan Grenfell, Deutsche Bank has bought the elite "London gold fix bank" Sharps, Pixley & Co. Last year, Dresdner bought control of the established merchant bank, Kleinwort Benson & Co. Commerzbank made an intensive effort to buy N.M. Rothschild's Smith NewCourt stock brokerage, losing out at the last second to a U.S. rival. Westdeutsche Landbank recently bought London's Charterhouse Ltd.

Several years ago, the large London clearing banks—Barclays, Lloyds Bank, Midland, NatWest—began buying out the small, influential German private banks such as Schröder, Munchmeyer, Hengst, and Merck, Fink. The result has been a thorough incorporation into German banking of the British methods of finance.

In addition, the big German banks have bought the top City of London bankers. Recently Deutsche Bank raided 44 stock traders from S.G. Warburg & Co. of London, and Dresdner Bank promoted HansGeorg Hofmann, a leading London Eurobond trader, to the bank's board in Frankfurt. Commerzbank has made similar additions.

Backing for the Maastricht Treaty

But, over the long run, the consequences of this turn to British banking, have become frighteningly clear in the domain of the Maastricht Treaty and the proposed European Monetary Union.

In December 1991, the heads of state of the 12 member-nations of the European Union (EU) held their annual summit at Maastricht, the Netherlands, where they signed what came to be named the Maastricht Treaty on European Monetary and Social Union. The treaty enshrined the demands of French President François Mitterrand and Italian Premier Giulio Andreotti, with backing from Margaret Thatcher's successor, John Major. The principal aim was to "bind" the newly united Germany firmly into a supranational structure, called the European Monetary Union. The power of national central banks, including the Bundesbank, would dissolve by 1999 and a new independent European Central Bank and Euro-currency would replace them.

Initially, by all accounts, the big German banks were more than hesitant about Maastricht, calculating losses in currency exchange and new costs. But, according to Frankfurt banking sources, "by about 1994 that attitude changed radically. Deutsche Bank led the rethinking on Maastricht. They came to the realization that, even with the strict qualifying criteria and the ensuing deflation of the EU economies, that Maastricht would be a major boost to the power of Deutsche Bank as Europe's leading deposit bank. With no risk of currency fluctuations, Deutsche Bank plans to make a major move into France, where French banks are weakened from their recent crises, as well as into Italy. From there, the bank will dominate European banking as no other bank. Deutsche Bank, in the last two years, has become the major lobby in Bonn to push Maastricht through. Both [board members] Kopper and Cartellieri play a big role with the Chancellor [Helmut Kohl] on this issue."

Whether this will come to pass smoothly is not clear. But what is clear, is that Deutsche Bank, Dresdner, and the other majors are fully behind Maastricht. In a speech to the World Economic Forum at Davos, Switzerland in February, Deutsche Bank board member Ulrich Cartellieri declared, "European banks will lose an estimated 23 billion ECU [European Currency Units] in currency fees once the single currency is complete. Despite this, we are determined that we will have Maastricht by January 1999. We must develop a single currency in Europe large enough to compete with the dollar."

Left unsaid was the cost in millions of permanently unemployed in Germany as a result of Bruening-like government fiscal deflation under way on behalf of the Maastricht debt and deficit goals. Significantly, according to a high-level Brussels source, it was Britain in December 1991, which insisted on the specific 3% state deficit and 60% public debt limits of Maastricht.

Little-known is that Deutsche Bank earlier also played a role in attempting to establish a European Currency and Economic Union: During 1940-41, on behalf of the Reich, Deutsche Bank went to Poland, Romania, Ukraine, Czechoslovakia, Vichy France, Denmark, and other Nazi-occupied lands, to establish the basis of centralized looting of their economies for more efficiently financing the war. That plan failed, but only for military reasons.

In anticipation of the European Monetary Union on Jan. 1, 1999, Deutsche Bank, Dresdner, Commerzbank, Hypo, and Vereinsbank have already installed costly computer systems to manage the transition. But more significantly, they have initiated the most radical push for profits and growth in history.

'Shareholder value' takes over

Worse, the Big Five banks have become the prime motor behind introduction into German industrial companies of the destructive British "shareholder value" agenda. As this news service has earlier detailed, shareholder value is the name given a transformation of investment ideology that began in the late 1980s in Britain and the United States. Leveraged buyouts and "junk bond" hostile raids on companies for pure speculative profit were justified because the profit for the "shareholders" of a victim company, would be greater if the company's stock rose and costs were cut. By the early 1990s, shareholder value was accepted practice in the Anglo-Saxon world. This meant a record slashing of jobs in "downsizing," and demoralization of entire sectors of the population. The doctrine primarily benefits huge investment funds, which buy and sell stocks and bonds for maximum profit on a daily basis.

In Germany, shareholder value is being rammed down the throats of industrial companies, not surprisingly, by their major shareholders—Deutsche Bank, Dresdner, Commerzbank, etc. This is also behind the decision to diminish direct permanent core stock shares.

The big banks have established British-style "investment funds" subsidiaries, the largest being Deutsche Bank's DWS and Dresdner's DIT. These funds buy or sell stock in, say, Daimler-Benz or Holzmann AG, based, not on permanent Deutsche Bank interest in those companies, but in three- or twelve-month profit gains from a given stock. Using this weapon, Deutsche Bank has driven Daimler to dump units, including AEG and Fokker, and tens of thousands of jobs with them, in the name of "shareholder value."

The shareholder value revolution is only part of the banks' strategy in preparing for the EMU in 1999. Through their new investment trusts, capitalizing on the social welfare debate which they had initiated two years ago in Bonn, the banks plan to make a fortune in attracting the savings of ordinary Germans into investments in private pension plans, whose funds then can serve as a base for Deutsche Bank's global speculation, using derivatives, of course. In announcing the new strategy, Deutsche Bank's Rolf Breuer boasted that it was being done "after the Anglo-Saxon model."

Conflict with the savings banks

Targetting private savings in this way has directly brought the Big Five banks into unprecedented conflict with the savings banks. In an unusual comment, the head of the German savings bank association, Horst Koehler, lashed out on March 12 at Hilmar Kopper for Deutsche Bank's efforts to force privatization of the German savings banks, most of which are state-run. In the past century, the savings banks have financed homebuilding, small businesses, and farming with low interest rates. Deutsche Bank and the big banks now want to privatize the savings banks in order that they, and their deposit base of more than DM 1 trillion ($710 billion), can become takeover targets.

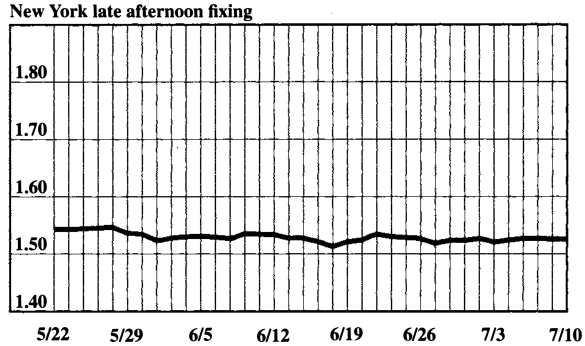
By law, the savings banks are strictly separated from big commercial banks, and mergers or takeovers between the two are not allowed. Koehler, pointing to Kopper's bad record as chairman at Daimler-Benz, stated that Kopper and other big bankers were "talking about investment banking, and some are trying to give the impression as though everything coming from the banking center of London must be the royal road for business policy among credit institutions." Koehler also noted, pointedly, that the savings bands had to step in to fill the credit vacuum for financing *Mittelstand* companies when Deutsche Bank and the other big banks pulled out.

Should the transformation of German banking into free market money monoliths continue, it will likely spell the death of the postwar German industrial miracle in a few short years. Tragically, no one in Germany seems to have drawn the proper lessons from the disastrous experiences over the past decade throughout the English-speaking world, where bank failures, depression, unemployment, and social polarization into very, very rich and very poor have been the result.

Currency Rates

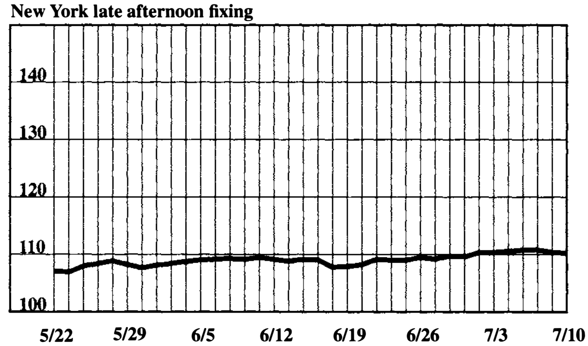
The dollar in deutschemarks

New York late afternoon fixing



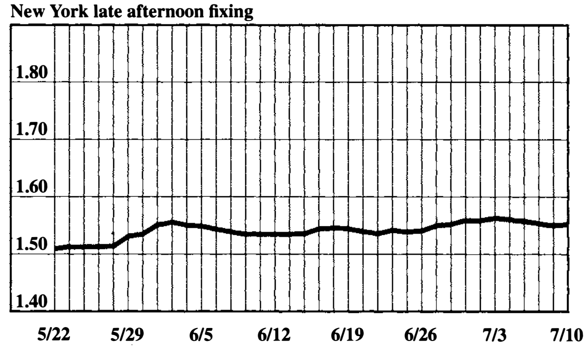
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing