Banking by John Hoefle

Deutsche Bank is buying Bankers Trust

The former industrial bank continues its shift toward the disastrous Anglo-Saxon model.

On Nov. 23, Deutsche Bank and Bankers Trust Corp. issued a joint statement announcing that they were in the "advanced stages of negotiations" for a potential $9.7 billion merger, in which the giant German bank would buy the ailing New York institution. Both banks are expected to give final approval to the deal on Nov. 29. While foreign ownership of U.S. banks is fairly common, the deal stands out as the largest takeover to date of a U.S. bank by a foreign institution.

The combined bank would be the largest bank in the world, with assets of some $840 billion, topping the $800 billion UBS, itself the result of a merger between Swiss Bank Corp. and Union Bank of Switzerland; the $700 billion Citigroup, formed in October by the merger of Travelers and Citicorp; the $650 billion Bank of Tokyo-Mitsubishi, once the world's largest bank; and the new $570 billion BankAmerica, formed by the merger of NationsBank and BankAmerica.

Deutsche Bank had for months been the subject of rumors that it would acquire a U.S. bank, possibly J.P. Morgan or Bankers Trust, and Bankers Trust was clearly destined to be acquired, after posting a $488 million loss for the third quarter.

Bankers Trust isn't really a bank: It doesn't have a retail deposit business, having transformed itself into more of an investment bank with a commercial bank charter. In 1989, it became the first U.S. bank to underwrite junk bonds, and during the 1990s became the poster boy for the international derivatives market—not only did the bank tout itself as paving the way for a new world of banking, but so did the regulators, who cited the bank's expertise as one of the reasons why the derivatives market was safe.

But such talk stopped abruptly in 1994, replaced by persistent rumors that the bank had suffered huge derivatives losses. In September 1994, Gibson Greetings filed suit against Bankers Trust, charging the bank with defrauding it on derivatives deals; that suit was followed in short order by a rash of others, including one by Procter & Gamble which accused the bank of violating Federal racketeering laws.

While the bank was clearly guilty of fraud—the bank's own tapes showed traders bragging that they would "lure people into that calm and then just totally f—k 'em"—such activities are really nothing new on Wall Street. The lawsuits, and the publicity surrounding them, provided regulators with a way to take over and clean up the bank, without having to admit that it had failed.

On Sept. 21, 1994, the regulators moved in, with Bankers Trust "hiring" Deputy Treasury Secretary Frank Newman to be a senior vice-president and a director. Within a month, Newman was promoted to president, and was designated the successor to chairman and chief executive Charles Sanford, who was shown the door after a discreet interval.

The result was a backdoor takeover of one of the largest banks in the country by Federal regulators, similar to the way Citicorp had been seized in late 1990.

Deutsche Bank has had troubles of its own. On Nov. 30, 1989, three weeks after the fall of the Berlin Wall, Deutsche Bank Chairman Dr. Alfred Herrhausen was assassinated, allegedly by the Red Army Fraction, when a bomb destroyed his armored limousine. An investigation by *EIR* showed that the assassination had been ordered by the Anglo-American oligarchy in order to stop German plans to develop the East bloc; instead, the Anglo-Americans imposed a policy of looting the former East bloc nations, as a way of propping up the bankrupt Western financial system. That policy, combined with the imposition of the Maastricht Treaty upon Germany as a precondition for Western acceptance of German unification, has severely weakened Germany's economy, and its banks.

Since Herrhausen's death, and especially under current chairman Rolf Breuer, Deutsche Bank has largely abandoned its historic role as an industrial bank, and transformed itself into an Anglo-Saxon-style speculative bank. That policy hasn't worked. Deutsche's acquisition of Morgan Grenfell, the London-based investment bank, had more the flavor of taking in the Trojan Horse than an acquisition, and Deutsche's foray into Silicon Valley investment banking disintegrated this summer, when most of its 150-person technology group defected to Crédit Suisse, taking the customer base with them.

Both banks have jumped heavily into the derivatives markets. By the end of 1997, Deutsche Bank had $3.4 trillion in derivatives, while Bankers Trust, even after its brush with disaster, had $2.1 trillion.

With this acquisition, Deutsche will take another giant step away from its industrial banking tradition—a tradition which helped make Germany an industrial powerhouse—and put it closer to ground zero in the coming disintegration of the derivatives market.