EIR Economics

German banks slash credit to medium-sized industry

by Lothar Komp

Approximately 3 million small and medium-sized businesses constitute the backbone of the German economy. They account for two-thirds of all jobs, and six-sevenths of all training. They pay two-thirds of all corporate taxes, and they account for half of the gross value generated in the economy. Medium-sized industry includes the army of suppliers and machinery producers which are at the leading edge of technology in their respective areas worldwide. With their close relationship to the larger German firms, they contribute decisively to the 800 billion deutschemarks ($421 billion) of German exports, which is the pillar of the standard of living of households throughout the country.

One of the most important supporting pillars of these medium-sized industries is now in danger of crumbling. The traditional partnership of a firm with a single bank, the "house bank," was always one of the crucial characteristics and secrets behind the success of the German economy. This "house bank" principle provided a reliable mechanism, especially for medium-sized firms, to carry out long-term investment projects, while the house bank has an accurate overview of the performance capabilities as well as the credit risks of its client firms, and it can therefore make decisions quickly and effectively, should the need arise.

But, for some time now, the virus of British free-market neo-liberalism has infected the German banking system. The "cultural revolution" announced by the former spokesman of the board of directors of Deutsche Bank, Hilmar Kopper, a revolution in the direction of the "Anglo-Saxon" model of banking, is in full swing. (The term Anglo-Saxon here refers to the alliance of the City of London and Wall Street—an alliance in fundamental opposition to the American System of political economy, the system of Alexander Hamilton, Henry Carey, and Franklin D. Roosevelt.)

The large private banks in Germany now want to decouple themselves from their traditional client-firm business, with its low profit margins, and instead turn to short-term, speculative profits on the enticing international financial markets. The justification for turning their backs on German industry is taken from the Darwinist takeover battles raging worldwide, in which only the "fittest" survive. In order that the banks may utilize the deposits of their customers with fewer restrictions, savers are now being called upon, in particular by Dresdner Bank, to exchange their savings accounts for shares in investment funds; of course, if the speculative operations go wrong, the customer will lose everything, whereas in the case of normal savings deposits, the bank is obligated to uphold them, come what may.

European Commission against the public banks

The ongoing shift on the part of the large private banks aims to eliminate the bothersome domestic competition, which still takes responsibility for matters of the general welfare—from the day-to-day business at the bank teller's window, to financing community infrastructure programs. Public banks played a more prominent role in the post-war period in Germany, than in any other Western industrial country. In the context of the worldwide elimination of opposition in the economic and financial system, generally called "globalization," the large private banks and the European Union (EU) are demanding the elimination of the public banking sector in Germany. The president of the Association of German Banks, Martin Kohlhausen, for example, who is also the spokesman for the board of Commerzbank, spoke about the public banks in Germany as a "peculiar creature," for which there was no longer any room in Europe, and which should therefore be privatized. Since that cannot be accomplished quickly, a pinprick tactic has been adopted. The radical-liberal "competition law" of the European Union is the leverage used for that purpose, which exists in this form nowhere else in the world.

In July, the EU Commission decided that the special modalities of the transfer of the Institute for Promotion of Housing Construction of the state of North-Rhine Westphalia, to the Westdeutsche Landesbank (West LB), represented an illegal public subsidy, and so West LB would have to make a compensation payment of DM 1.6 billion to the state. The real issue here is that West LB can now count the capital of the Institute for Promotion of Housing Construction as its own, thereby enhancing its capital base, without West LB's having incurred any costs to achieve that effect. This is what the EU Commission is complaining about, because it claims that this procedure gives West LB a competitive edge over the private banks. This entire story, however, is already seven years old. The large private banks filed a complaint at the EU Commission in 1992, and demanded that the Commission forbid other forms of public subsidies to public banks. West LB, for its part, intends to contest this decision at the European Court, and terms the policy of the EU Commission an attack on the public banking system of Germany, as well as an attempt to force privatization.

The chief of Deutsche Bank, Rolf E. Breuer, has taken up a position against West LB, and hails the EU Commission's decision as a "spectacular step." The Commission has announced another foray against the "peculiar creature" of the public banking system for the month of November, which is when Competition Commissar Mario Monti will present his new guidelines on the subject of state guarantees for credits extended to industry, and also state guarantees for public banks. It is expected that state guarantees for public banks in Germany, the so-called "liability of the guarantor," will be ranked as an illegitimate subsidy.

Growing opposition

Representatives of the public banks have begun to speak out in an uncommonly aggressive tone. The president of the Association of German Savings and Loan Banks, Dietrich Hoppenstedt, warned in a speech at the World Savings Conference in Frankfurt on Oct. 29 against fixation on short-term profit maximization, which creates nothing of real value. He pointed to the "consequences of increasing exaggerations on the international financial markets," and critically noted that "in Europe, many are chasing after Anglo-American economic conditions" in the German banking market. He sees the public banking system in Germany as being subjected to an attack of large private banks from within Germany and abroad, which are clearly counting on powerful support, both from the European Commission in Brussels, as well as from U.S. Federal Reserve Board Chairman Alan Greenspan.

According to the evaluation of the new chairman of the Board of the Credit Bank for Reconstruction (Kreditanstalt für Wiederaufbau, KfW), Hans W. Reich, a financial emergency is coming for the German medium-sized firms, as a result of the flight of the large private banks out of financing for these companies. Reich reported at a press conference in Frankfurt on Oct. 28 that the KfW will extend DM 27 billion of promotional credits to the medium-sized industry sector, which are granted through the usual banking institutions to the firms.

Since the beginning of the 1990s, however, the large private banks' share in this business has dropped by *half* (from 32% to 15%), and even to one-third in business with smaller credit volumes. The savings and loan banks, and other smaller institutions, have increasingly had to take up the slack (their share increased from 30% to 61%), but they are coming under mounting competitive pressure. Reich warned: "This development can lead to a situation where medium-sized firms soon will have trouble finding any bank at all to finance their investment projects."

Up to now, these pronouncements have a largely defensive character. To save the medium-sized industry sector, which is so vital for the entire German economy, more aggressive steps will be necessary, to guarantee the financing of productive investments in small and medium-sized firms. Millions of jobs are at stake.

Open Letter to Chancellor Schröder

Zepp-LaRouche: Germany's existence is at stake

This letter was sent to Chancellor Gerhard Schröder by Helga Zepp-LaRouche, president of the Schiller Institute in Germany. It has been translated from German.

Mr. Federal Chancellor:

As you say yourself, you ask yourself nowadays whether it was really such a good idea to have rattled at the gates of the Federal Chancellery, with the idea of wanting to get inside. You surely did not expect that the first year of your term in office would unfold with so many problems.

But now you are Federal Chancellor, and indeed, at a moment at which existential decisions for our nation and our future are at issue. For that reason, I would like to make a proposal to you, on how you can swing the rudder around and prevent Germany from collapsing into a deep depression in the immediate future.

First of all, to outline the situation we are in: Anyone with the slightest notion of economics and of the condition of the international financial system, knows that we are on the verge of the largest crash in the history of the financial markets, and experts are increasingly corroborating what the American