EIR Economics

Germany in revolt at bankers' dismantling of industry

by Rainer Apel

Jürgen Mahnecke, chairman of the trade union factory council at Philipp Holzmann, Germany's second-largest construction firm, was on the mark when he said on Nov. 21 that the default which the firm was facing, had been "rigged" by the creditor banks. After yet another round of emergency crisis sessions in Frankfurt that same day, the creditor banks failed to put up a bridge loan of 3 billion deutschemarks ($1.6 billion), which would have prevented the company from filing for full bankruptcy. All constructive proposals that could have ended the deadlock over a sum of DM 250 million in loan guarantees, were wiped off the table in another crisis session on Nov. 22, delivering a clear message: Some among the creditors simply had no interest in saving the company. But soon after, the bankers came to realize that they had gone too far: Led by a good part of the media, a broad public outcry built up against the banks, calling for the government to intervene and do something to save Holzmann. It appears that Holzmann has been, at least temporarily, saved from bankruptcy.

There have been big corporate defaults during recent years, but this one would be a watershed. It illustrates the fact that Germany's big banks are about to end their tradition of industrial loans, and are on their way to the virtual world of global inter-market monetary deals. An entire era of banking policy, the last phase of which began in Germany in 1990, has come to an end. The top bankers are no longer interested in keeping industry and its workforce intact; the only thing that concerns them is the net profit that can be extracted from selling off the best parts of industry, and from the financial speculation that goes with expectations about what alleged "benefits" downsizing might have.

The default of Philipp Holzmann, which employs 17,000 people in Germany, would have affected another 40-50,000 jobs in sub-contractor and supplier firms. It would also have affected 5,000 of its workers who hold company shares as part of a corporate pension fund, whose pensions will be wiped out in the course of a bankruptcy procedure. It also will affect construction work at numerous public infrastructure projects of national or regional importance, in which the Holzmann company plays a leading role, including the ICE high-speed train link from Cologne to Frankfurt am Main, the fourth Elbe River tunnel in Hamburg, the underground railway and metro tunnel system in the newly built government district of Berlin, and the northern German A-20 highway. Other projects in which the company is involved include the restoration of Dresden's world-famous Frauenkirche, the church that was destroyed by Allied bombing during World War II; and the just-completed restoration of the Reichstag, the site of the German national Parliament in Berlin.

Philipp Holzmann is not just a big company; for 150 years it has been at the center of many crucial national and international projects, such as the construction of the original Reichstag building 115 years ago, and the construction of the 3,000 kilometer Berlin-to-Baghdad rail line which began 87 years ago. The company is a national institution, and it been allied with another important institution for its entire history: Deutsche Bank, which funded all of Holzmann's important projects.

The end of an historic alliance

But now, Deutsche Bank has withdrawn from this historic alliance, in a two-phase process. First, after the assassination of the bank's chairman, Alfred Herrhausen, on Nov. 30, 1989, a new generation of bankers involved Deutsche Bank more and more in speculative financial deals, and dragged along with them numerous corporate executives in the industrial firms that depended on the bank's loans. In this way, several big German companies were driven into default: In 1993, Metallgesellschaft began its fall, because of more than $2 billion in losses resulting from failed speculation in oil derivatives; in 1994, the real estate developer Jürgen Schneider collapsed over close to $4 billion in uncovered debt; and in 1996, Philipp Holzmann got into deep trouble, with uncovered deficits of more than $1.5 billion resulting from real estate speculation and derivatives deals. Each of these cases had been a pet project of one of the new generation of bankers at Deutsche Bank. In the case of Philipp Holzmann, names from several of these corporate collapses even come together, in the most shameless way.

A front-page article in the European edition of the *Wall Street Journal* on Nov. 19, lifted the veil a bit from this affair: "Although the cozy relationship between Deutsche Bank and Holzmann goes back more than a century, its latest evolution can be traced, ironically, to the Metallgesellschaft scandal.

"It was in 1993 that Carl von Boehm-Bezing, a member of Deutsche Bank's managing board, met Heinrich Binder, a Metallgesellschaft executive. When Mr. Binder arranged special collateral for a $500 million bridge loan Deutsche Bank extended the company in 1993, he became 'a trusted, known quantity,' in the eyes of Deutsche Bank, according to a former Metallgesellschaft executive. Mr. Boehm-Bezing was the Deutsche Bank official responsible for issuing that rescue loan.

"Four years later, when Holzmann was reeling from real-estate losses, Mr. Boehm-Bezing, as chairman of the supervisory board of the construction company, handed the top job to Mr. Binder, a respected manager but one with no experience in the construction business."

Other articles in the German news dailies mentioned that Binder had been on the board of the New York branch of Metallgesellschaft during exactly the period when it became engaged in massive speculation with oil derivatives. But before the losses broke in the news media, Binder returned to the Frankfurt headquarters of Metallgesellschaft—playing a role in the firm's "consolidation" after the derivatives default.

'Consolidation' plan rejected

With managers of such doubtful qualifications at the top, Germany's leading companies have no chance of recovering from the problems resulting from the combined overall economic depression and the boycott of industrial investments and projects by the big creditor banks. The smaller creditors of Philipp Holzmann and representatives of the smaller shareholders rejected Deutsche Bank's "consolidation" plan in the emergency sessions, on well-founded grounds: With Binder and other members of the company's board staying in office, there was no way that the company could be put back on its feet.

Deutsche Bank used this as a pretext to sabotage a constructive solution for the company in the talks on Nov. 21-22, stating that it was very sorry, but the company would just have to file for bankruptcy. The bank tried to put the blame on other big creditors, accusing Commerzbank of sabotaging a deal by not covering the shortfall needed for the consolidation package.

That package, it must be stated clearly, would have been a rotten deal: It would have meant another drastic shrinkage, probably a total dismantling of the company, cutting the workforce and the jobs in other firms dependent on Holzmann to about one-half.

Commerzbank countered by accusing Deutsche Bank of openly cheating it, because the Deutsche Bank chiefs managed to extract a Commerzbank loan of DM 50 million on Nov. 12, the very eve of Holzmann's problems becoming public. At the time Deutsche Bank negotiated the loan with Commerzbank, its top brass knew what the real situation at Holzmann was, the Commerzbank leaders charged.

Indeed, Deutsche Bank has clandestinely reduced its loan exposure at Holzmann since about the beginning of 1999—which would corroborate the thesis that it had prepared for the default already months ago. At the time that Holzmann celebrated its 150th corporate anniversary in mid-October, the top echelon of German politicians were being lied to about the company's real situation. The default, which came four weeks after these celebrations, has delivered a profound shock to politicians across party lines, enraging Chancellor Gerhard Schröder, provoking a public outcry, and mobilizing the labor movement against the banks. The Nov. 24 banner headline, "Banking Shame," of *Bildzeitung,* Germany's leading mass-circulation daily, summed up what the nation thinks about the entire affair.

Assault on the 'general welfare'

Leading politicians from the governing Social Democrats and from the opposition Christian Democrats alike have aptly described the Holzmann case as a watershed in German banking culture, correctly viewing it as an assault on the principle of the "general welfare," and on the social responsibility of the bankers. Several politicians have warned that new banking laws are required to prevent this kind of thing from happening again.

Indeed, a majority for that is building right now, as the banks are coming under attack from a broad alliance of political and other institutions. Chancellor Schröder, coming under heavy pressure from labor, and with his Social Democratic Party having lost six regional elections in a row, met with labor representatives for 90 minutes in Berlin on Nov. 23. He spent most of the following day in emergency talks with bankers and politicians in Frankfurt—amidst a crucial parliamentary debate on the sharply contested government budget plan for fiscal year 2000. Schröder also offered to address a protest rally of Holzmann workers and other labor unionists in Frankfurt, also on Nov. 24.

In a national television interview on Nov. 23, Schröder said that he was not going to tolerate a situation in which "the