German Economy on Ropes as Bank Fails

FLASH: FRANKFURT, August 16 [IPS] — West German Federal Bank Vice-President Otmar Emminger told a press conference this afternoon that the minimum reserve requirement for banks would be lowered this month. The measures, which will release up to 5 billion marks into the German banking system, are viewed as a "compensatory measure" for the massive outflows of funds from the country which have taken place during the last weeks, Emminger said.

An International Press Service reporter asked Emminger whether the Federal Bank would consider dumping some of its $35 billion reserves on the international market, to protect the value of the German currency and release additional liquidity into the domestic banking system to forestall the ongoing collapse of production.

Replied a Federal Bank director, "The Federal Bank will never sell dollars below their market price." But he added, "The Americans may well be afraid, since they have been dumping dollars into the international monetary system for too long. Now they could be afraid that the entire mess will come back to them."

August 12 — While bankers in Europe and the U.S. try to downplay the Frankfurt Bass and Herz collapse, the failure of the small private bank has broadcast the perilous condition of the entire German economy. In the last few weeks at least 4 billion marks (over $1.5 billion) have left the country as the Rockefeller gang pulls liquidity out of German banking and industry. The 4 billion mark outflow means that much less credit is available to shore up all sectors of the economy; i.e., more bankruptcies.

Bankers Deny Anything Happened

At the time of the Herstatt collapse German bankers were saying that another failure would bring the whole banking structure down. Now that a second bank has actually folded — "voluntarily" liquidated itself — the bankers have changed their line. Some are consoling themselves that the Bass and Herz failure was not a bank crash at all; the bank failed only because the Schaffgotsch Mining Group tied to it went bankrupt. Some are saying that Bass and Herz was practically a subsidiary of Count Schaffgotsch's industrial empire, "thus in the true sense not a bank at all," according to the authoritative *Frankfurter Allgemeine Zeitung.*

In interview with International Caucus of Labour Committees intelligence the Frankfurt head of the Bank Fuer Gemeinwirtschaft , BFG, owned by the German trade unions, offered another phony excuse: the bank was "mismanaged." "If we don't have another bankruptcy, everybody will forget about Herstatt and Bass and Herz," he added hopefully.

A foreign exchange trader at Morgan Guaranty in N.Y. told IPS that the Bass and Herz failure was different from Herstatt — the bank was not involved in foreign exchange losses and therefore its failure was not significant.

The significance of Bass and Herz is precisely its difference with Herstatt! The excuse that it was not a bank crash is just the point — invisible to bankers' eyes. A "liquidity consortium," a self-held outfit of private banks set up after Herstatt, together with the BFG, had compromised to help Bass and Herz on the assumption that its troubles stemmed from the Herstatt collapse and the subsequent difficulty of small banks in attracting deposits. However, after a quick glance at the books of the Schaffgotsch Group, the "fire engine fund" backed away from the tiny bank, knowing that the situation was more than it could handle. The fund could never cover the extensive losses of the entire group.

The liquidity consortium no doubt also recognized that Bass and Herz was not an isolated case. The dependence of a German bank on an industrial group is not unusual. In fact, around one-third of the remaining 150 private banks in Germany are in effect the house banks of industrial and commercial groups; most of the other 100 have close industrial connections. In a period of illiquidity, banking liquidity will suffer in favor of industrial liquidity. The latest Commerzbank figures reveal just that: the entire increase in lending in the first half of the year was in the financing of trade — to keep its customers going. While it is unlikely that Commerz, one of the three German "big banks," could be destroyed in this process, the smaller private banks are very vulnerable. Precisely because the companies around them are illiquid — companies heavily indebted to the banks — the private banks are in trouble.

Salvage Attempts Futile

Given that the entire German industrial and commercial structure is crumbling, any attempt to bail out Bass and Herz or any of the 50 or so private banks in the same situation would be completely futile. Rockefeller's oil hoax and the tight credit policy of his friends at the Bundesbank are decimating the construction industry, auto, machine tool, textiles, and now mining. German exports, the mainstay of the "German miracle" are falling off sharply, bringing the economy to a halt. After a trade surplus of between about $1.5 billion and $2 billion during the first five months of the year, in June the surplus fell to $1 billion. Without strong export business, the German economy will soon be in no better shape then the Italian.

The slowdown of the economy has brought with it a sharp rise in unemployment. Domestic-oriented industries like textiles and construction, as well as auto, are hardest hit. The latest official figures put unemployment at half a million, but those figures exclude the gastarbeiter and apprentice sections of the workforce; thus unemployment is closer to a million.

German Banks Lose Their Reputation

Following the "voluntary" liquidation of this bank which no one ever heard of, which wasn't really a bank at all, whose collapse was entirely insignificant, once highly respected German banks are being scrutinized with wary eyes. The *Handelsblatt,* the Frankfurt commercial paper, reports that various large U.S. and Canadian banks "have helped themselves to a new method of doing business," taking their paper securities from the small and medium sized banks and stashing them safely away (for the moment) in the big banks. One Canadian bank has already drawn up a blacklist of European banking houses and from now on will do business only with those in the double digit million figure. *Handelsblatt* comforts itself: "This way of doing business still remains an isolated case, just as the decision of one of the five leading Swiss credit institutions that no longer wants to do business with private German banks in the future." Such "isolated" cases are adding up!

Several Scandanavian financial institutions have also withdrawn their paper securities and large amounts of cash out of several small German financial institutions. This loss of confidence in the once sound German banking system is adding to the outflow of funds from Germany, making fewer marks available to the debt-strapped domestic firms. This weakens the liquidity of the companies further, which in turn weakens the banks they are connected to, and so on.

Bundesbank Reaction

What is Bundesbank head Karl Klasen doing about this spiral? According to the *Handelsblatt,* the central bank council is divided against the lowering of margin requirements for banks (the ratio of loans to deposits) — what the BFG and many others have been pushing since the Herstatt collapse as the "solution" to bank liquidity problems. The motive for the Bundesbank's current rejection of this plan is straightforward: "In Frankfurt banking circles it is believed that an abrupt change in the Bundesbank's policy would easily be misunderstood. In the most important sense this applies to the coming wage negotiations."

The other solution to the general liquidity crisis mooted by the Bundesbank is the easing of credit at the end of August, with the September tax date threatening to put serious pressure on the banks. In addition to bank and credit needs, states borrowing needs will rise by 72 per cent between 1974 and 1975. The Federal government will need an additional 15 billion marks for states and communities. In Italian style, the German rail and postal systems with a combined debt of 56 billion marks are adding to the pressure on the credit system. The increase between 1971 and 1973 was greater than the increase between 1968 and 1970!

No significant easing of credit will take place, however. The Bundesbank will continue to steer between inflationary credit expansion and mass bankruptcies, allowing special isolated cases to go down after another.

When the International Caucus of Labour Committees asked the BFG spokesman about the possibility of dumping dollars to protect the mark — a short-term antidote to the Rockefeller attack on the German economy — he froze and said that seemed "improbably complicated."