

Report From Germany by Rainer Apel

Stop the Casino Economy!

Cases of insolvency on the unregulated "gray capital" market show the urgent need for financial market regulation.

The recent bankruptcies of several investment funds in Germany demonstrate that "any casino is a more regulated place, than what you find in the 'gray capital' market of Germany," an investment expert told this author. Recent widely publicized cases involve the Würzburg-based Euro-Group, with 40,000 investors; the Berlin-based VermögensGarant, with up to 15,000 investors; and the Leipzig-West firm, with 25,000 investors. In all three cases, investors were offered huge dividends—twice or thrice the level usually earned on the market—and the fund's operations were run on the basis of a pyramid system: Those who pay in last, pay off those that engaged earlier (including banks, which usually are the first to demand their money back).

In all three cases, the managers of the funds had a record of fraudulent activity already, long before they started their latest "investment" schemes. At the Euro-Group, a conglomerate of numerous minuscule "post office box" firms, the key initiator had been sentenced previously for defrauding tens of thousands of credulous eastern German citizens. VermögensGarant had received restraining injunctions from four big private banks, whose names and reputations were misused for advertising investment projects with a huge dividend of 8.5%. The banks were ABN Amro, Crédit Suisse, UBS, and Société Générale. In June 2005, investigators raided the Berlin office of VermögensGarant, but did not seize its files, despite a long history of fraud. Unwilling or unable to pay dividends to

investors or to give them back their money, the firm declared itself insolvent.

Leipzig-West maintains an image as a private housing firm, and indeed, it owns some 250,000 square meters of flats and offices in Leipzig and other German cities. But the scope of its enterprise is much too small to offer a dividend of 6-7%, as the company has done. Apparently, a substantial share of the dividends came from other sources, such as bank loans and fresh funds from new investors in the pyramid scheme. In December, the firm was unable to pay dividends on time to its 25,000 investors, using the ridiculous claim that a computer malfunction was forcing it to process the payments by hand, which would take up to six weeks. Investors fear that when the six weeks are gone, their money will be gone as well.

Apart from the individual aspects of fraud in all three cases, the fact is that high-risk operations like these aggressive investment funds, with their promises of huge dividends, are among the first to bite the dust, as the global system of speculative finances as a whole is turning more volatile by the day. The small "pyramids" are part of the big speculative pyramid. Highly exposed private banks all of a sudden refuse to grant fresh loans, and the costs of paying off short-term loans that are typical for high-risk funds, mean the abrupt end of such operations.

There is not much investor protection in Germany, such as a law that would hold fraudulent managers personally responsible and would sanc-

tion them effectively. Today, a fraudster can let his fund or firm go bust, risking a court case and sentence, paying a relatively minor fine of 50,000 euros, and walking away a free man, moving on to new fraudulent enterprises. Initiatives to get regulatory legislation enacted have so far failed to get a positive response from policymakers. The situation is similar to that of the hedge and private equity funds, where the most that the policymakers would do, is to make "more transparency" mandatory, with legislation that will go into effect this Summer.

But a general, in-depth regulation of the financial market, and in particular of the totally unregulated "gray capital" market, has never been put on the official agenda.

Investment watchdogs are aware of the problem, but there is little they can do. Even with the aforesaid legislative improvements concerning hedge and private equity funds, the chief financial market watchdog of Germany, the BAFIN, will "still have fewer teeth than, for example, the corresponding watchdogs in the U.S.A.—the SEC—or in Britain—the FSA," an investment expert told this author.

But watchdogs alone will not solve the problem, which is the present global casino system as such.

The LaRouche movement in Germany is campaigning for a New Bretton Woods reorganization of the global financial system, which, along with a productive investment program, is the only thing that will really solve the situation. The slogan of the Civil Rights Movement Solidarity party (BüSo) is "Stop Speculation, Fund Production!" The BüSo is campaigning now in the mayoral elections in Leipzig and Wiesbaden. In the latter, which is a gambling center, the BüSo vows: "Stop the Casino Economy!"