New Deutsche Bank Crisis Puts 2016 LaRouche Plan Back on the Table

by Paul Gallagher.

May 27—The increasingly perilous state of Deutsche Bank, Germany's largest bank—and still likely having the largest exposure to financial derivatives contracts of any bank in the world—has created a stark choice for Germany and Europe. Create the conditions for a dramatic expansion of industrial lending and infrastructure-project credit, in which a Deutsche Bank can flourish if reorganized in the direction its board says it now urgently wants. Or, see the giant bank fail soon, sending shock waves throughout the trans-Atlantic banking systems.

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Deutsche Bank Towers, Frankfurt am Main, Germany.

CC/Gregor Fischer

John Cryan, recently fired Deutsche Bank CEO. He brought to Deutsche Bank the disastrous speculative policies of Warburg Bank, UBS and the giant British conglomerate of hedge funds called the Mann Group.

That puts a spotlight back on the proposal to save Deutsche Bank made to the German government in July 2016 by Lyndon LaRouche and Helga Zepp-LaRouche (republished below). And with Chancellor Merkel now visiting Beijing, there is a second spotlight on China's Belt and Road Initiative of great infrastructure projects, which can help create exactly the conditions demanded above, if Germany joins in it.

The current trampling on Italian voters' right to elect a majority government, because that government angers the City of London, Wall Street, and the European Central Bank, is also involved in this banking crisis, as we will see.

'A Very Long Time Dying'

The immediate facts of Deutsche Bank's crisis are being widely reported, but in a manner which obscures their cause, already laid bare in the LaRouche 2016 proposal.

The bank has fired its CEO, John Cryan, a veteran of London's Warburg Bank, the UBS board of directors, and the giant British conglomerate of hedge funds called Man Group. Deutsche Bank Chairman Paul Achleitner survived only by promising to shrink and divest the bank's investment banking divisions, the scene of large losses over recent years. The bank has begun firing between 7,000 and 10,000 of its employees, largely from the investment bank.

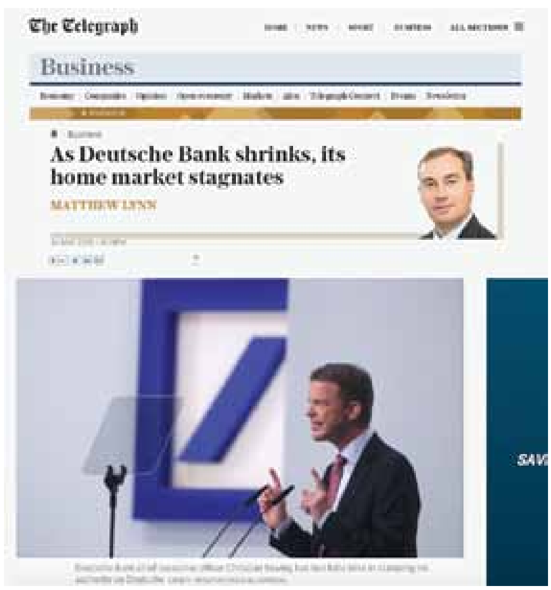
An investment analyst from ACG Analytics opined on CNBC May 25 that the bank's stock and capital, recently fallen from 26 billion to 21 billion euros, could soon "go to zero, with very bad consequences for international markets in the near term."

These developments clarify a then-unexplained event of five weeks ago. Germany's *Sueddeutsche Zeitung* (*SDZ*) newspaper for April 16 reported that the European Central Bank (ECB) had told Deutsche Bank to conduct an immediate simulation of what a "crisis scenario" would look like, and what it would cost to carry out a "resolution" of its own investment banking division. The paper said this was the first time the ECB had demanded such a measure from a major bank. "According to the report," *SDZ* wrote, "banking regulators want to know what the impact would be on the value of Deutsche Bank's capital market and derivatives business if . . . it had to simulate an abrupt end to new business."

Clearly the ECB knew something serious was wrong at the megabank.

A London *Telegraph* columnist jeered on May 24: "it takes a lot to kill off a major bank. They can hang around for a heck of a long time after everyone has forgotten what they were for. And yet, even by the standards of the big beasts of the global finance industry, the once mighty Deutsche Bank has been a very long time dying."

Such *schadenfreude* will take a very short time to turn into panic—including at the ECB—if Deutsche Bank actually fails. It is as leveraged as Lehman was in September 2008. And it is prominent in the City of London-centered phalanx of megabanks which are now choking in highly speculative corporate "junk debt," and derivative contracts on that debt. Now the rise in dollar interest rates is driving them toward mass defaults and the collapse of banks.



Who Ruined Deutsche Bank?

The chief economist of the bank gave an explosive interview to *Handelsblatt* May 23, in which he stated what has ruined it, namely "Anglo-American banking." David Folkerts-Landau described how a team of "star-trader" speculators from Merrill Lynch in London and New York took over Germany's then-leading bank, starting 20 years ago, and turned it into a giant hedge fund, which made huge profits every year—until it became clear the profits were faked and the bank was all but bankrupt.

Folkerts-Landau placed blame on Josef Ackermann, CEO from 2002 to 2012, among others—not on himself, although he worked within the investment bank throughout those 20 years, and lives in Scotland and the United States. He said Ackermann was seduced by the magic of an annual 25% return on investment apparently produced by the trading floor "stars," who by then had taken over the Deutsche Bank investment bank and were increasingly driving the whole bank with it. Such enormous apparent returns "could only be achieved by accepting major financial and ethical risks," Folkerts-Landau said. He did not explain this, but those risks involved the bank leading the world in exposure to derivatives—complex securities often used to make actual losses appear to be short-term profits. Deutsche Bank played an infamous role in using deceptive derivatives contracts to help bankrupt Monte dei Paschi Bank, Italy's third-largest.

All of this, Folkerts-Landau said, was a "reverse takeover" of the bank by the City of London investment-banking culture of speculation, as opposed to the traditional German banking culture focused on industrial lending and retail commercial banking. "The difficult truth is, fundamental, strategic decisions made by management and the supervisory board from the mid-1990s through 2012, put the bank in this situation. . . . Since the mid-1990s, the bank's management has left operational and strategic control of its financial markets business to the traders," he told *Handelsblatt*.

The chief economist was

describing how the City of London took over Deutsche Bank after then-CEO Alfred Herrhausen's 1989 assassination, and through "a very long time dying," have brought it near bankruptcy.

LaRouche's Proposal

Returning Deutsche Bank to Herrhausen's banking methods was at the center of the LaRouches' 2016 proposal to save the bank through a German government-organized capital increase, combined with a reorganization and reorientation of the bank's business plan, overseen by a committee created for that purpose.

Now, Deutsche Bank's new CEO, Christian Sewing—with the bank since late in Herrhausen's time—is carrying out deep cuts in the investment bank on which the company has staked and lost so much that it is clearly in peril. And he is pledged to bend the stick back to lending in Germany, industrial investment, and wealth management.

But this requires a change in credit, investment, and international cooperation strategy by Germany. Herrhausen was not a local banker; he was planning such industrial investment for development for the government of Helmut Kohl as Eastern Europe was opening up, when he was assassinated. Now industrial loan demand in Germany has been depressed since the 2008 crash; lack of investment in new infrastructure projects goes back further than that.

Helga Zepp-LaRouche showed that what Alfred Herrhausen proposed in 1989, is what can make a Deutsche Bank reorganization succeed now: "He defended, among other things, the cancellation of the unpayable debt of developing countries, as well as the long-term credit financing of well-defined development projects."

Today that means cooperation and joint credit issuance with the Belt and Road Initiative of China, building land-bridges and maritime routes of new infrastructure across Eurasia into Eastern Europe, Southwest Asia and Africa. In that environment, Deutsche Bank can be saved by the actions Lyndon and Helga LaRouche proposed, before it fails explosively.

Not only has the European Union tried to block Eastern European countries from these cooperative infrastructure projects with China's state commercial banks; it has just refused to allow a majority-elected government in Italy.

That elected government "threatened"—from London-centered financial circles' point of view—to violate rules of the European Central Bank and EU: by expanding infrastructure credit outside the EU's fiscal austerity straightjacket; by recapitalizing banks to save savers and bondholders and allow new lending; and by Glass-Steagall separation of investment banking in order to protect only commercial banking and industrial lending.

These "threats" from Italy to the Eurozone's crippling austerity and "bail-in" rules, have a great deal in common with the measures Lyndon LaRouche proposed to save Deutsche Bank. So the issue is the same in both cases: The Eurozone, with its close ties to City of London banking, is steadily impoverishing half the countries in it, and pushing its own big banks toward bankruptcy and deadly "bail-ins."

LaRouche's 2016 proposal to save Deutsche Bank pointed toward a broader solution to the crisis, and that is now on the table, both in the new crisis of Deutsche Bank, and in the likely upcoming new general election in Italy.

Zepp-LaRouche: Deutsche Bank Must Be Rescued, for the Sake of World Peace!

Helga Zepp-LaRouche, chairwoman of the German Civil Rights Movement Solidarity party, issued the following statement July 12, 2016:

The imminent threat of the bankruptcy of Deutsche Bank is certainly not the only potential trigger for a new systemic crisis of the trans-Atlantic banking system, which would be orders of magnitude more deadly than the 2008 crisis, but it does offer a unique lever to prevent a collapse into chaos.

Behind the SOS launched by the chief economist of Deutsche Bank, David Folkerts-Landau, for an EU program of 150 billion euros to recapitalize the banks, lurks the danger openly discussed in international financial media, that the entire European banking system is de facto insolvent, and is sitting on a mountain of at least 2 trillion euros of non-performing loans. Deutsche Bank is the international bank which, with a total of 55 trillions of outstanding derivative contracts and a leverage factor of 40:1, even outdoes Lehman Brothers at the time of its collapse, and therefore represents the most dangerous Achilles heel of the system. Half of DB's balance sheet, which has plummeted 48% in the past 12 months and is down to only 8% of its peak value, is made up of level-3 derivatives, i.e., derivatives amounting to circa 800 billion without a market valuation.

It probably came as a surprise to many that Lyndon LaRouche called today for Deutsche Bank to be saved through a one-time increase in its capital base, because of the systemic implications of its threatened bankruptcy. Neither the German government with its GDP of 4 trillion euros, nor the EU with a GDP of 18 trillion, would be able to control the domino effect of a disorderly bankruptcy.

Alfred Herrhausen, assassinated Deutsche Bank chairman.

The one-time capital injection, LaRouche explained, is only an emergency measure which needs to be followed by an immediate reorientation of the bank, back to its tradition which prevailed until 1989 under the leadership of Alfred Herrhausen. To actually oversee such an operation, a management committee must be set up to verify the legitimacy and the implications of the obligations, and finalize its work within a given timeframe. That committee should also draw up a new business plan, based on Herrhausen's banking philosophy and exclusively oriented to the interests of the real economy of Germany.

Alfred Herrhausen was the last actually creative, moral industrial banker of Germany. He defended, among other things, the cancellation of the unpayable debt of developing countries, as well as the long-term credit financing of well-defined development projects. In December 1989, he planned to present in New York a plan for the industrialization of Poland, which was consistent with the criteria used by the Kreditanstalt fuer Wiederaufbau (KfW) for the post-1945 reconstruction of Germany, and would have offered a completely different perspective than the so-called "reform policy," or shock therapy, of Jeffrey Sachs.

Herrhausen was assassinated on November 30, 1989, by the "Third Generation of the Red Army Fraction," whose existence has yet to be proven to this day. It happened only two days after Chancellor Helmut Kohl, who counted Herrhausen among his closest advisors, had presented his ten-point program for gradually overcoming the division of Germany [between East and West]. The *cui bono* of the terrorist attack remains one of the most fateful issues in the modern history of Germany, and one which urgently needs to be clarified.

The fact is that Herrhausen's successors introduced a fundamental paradigm change in the bank's philosophy, which brought Deutsche Bank into the wild world of profit maximization at all costs, and also into countless unpunishable and punishable legal entanglements, which those responsible have avoided until now, mainly because of the "too big to fail" premises.

The transformation of Deutsche Bank into a global investment bank with the highest derivatives exposure, combined with the simultaneous credit crunch for German small and medium-sized enterprises, is symptomatic of the folly which has led to the current catastrophe.

We must now act with resolution, but not in the way Folkerts-Landau proposes; that is, not with more of the same medicine, which would certainly kill the patient. Although it has mainly operated over the past years out of London and New York, Deutsche Bank is too important for the German economy, and therefore for Germany, and ultimately for the fate of all of Europe. Its reorganization in the spirit of Alfred Herrhausen is not only the key to overcoming the banking crisis, but also for averting the acute danger of war.

Herrhausen's assassination has gone unpunished. However, there exists "the dreaded might, that judges what is hid from sight," which is the subject of Friedrich Schiller's poem "Die Kraniche des Ibykus" ["The Cranes of Ibykus"]. The Erinyes have begun their dreadful dance.

It is now incumbent upon all those who, in addition to the family, have suffered from the assassination of Herrhausen, upon the representatives of the Mittelstand, of the German economy and the institutional representatives of the German population, to honor his legacy and to seize the tremendous opportunity which is now offered to save Germany.