Report from Bonn by Rainer Apel

Germany's 'safe' markets are not so safe

The deregulation of the financial markets in April is causing concern among those opposed to the speculative bubble.

The financial-political establishment of Germany seems confident that capital flight from Asia and other "unsafe" regions of the world will continue to flow into the "safe haven" of Germany. The DAX, the German stock market index in Frankfurt, will climb to the record mark of 7,000, and beyond, they are telling the public.

Germany's national election day is on Sept. 27, and politicians hope that any financial difficulties can be averted, at least until the day after the elctions. But such hopes rest on clay feet.

This has been pointed out by some of the organizations that represent the interests of the small shareholders—the majority of citizens, who have reason to be concerned about their savings that have been converted into stocks.

In an interview on June 24, Anneliese Hieke, co-chairwoman of the German Association for the Protection of Small Shareholders, told this author that Germany is not so safe a haven as the politicians and bankers claim it is. First of all, she said, a financial market shock is in the making, because the crisis in Asia is getting close to another eruption; second, the German banks and politicians are not prepared to protect German stocks against the spillover effects from Asia and Russia. She said that so far, the German stock market has only reported losses that were slight enough to be repaired within a few hours; but in the autumn, things might look very different.

In another big stock market crash in Asia, which many are saying could come late this summer or in the autumn, Japan may be forced to liquidate its assets and bonds abroad, and these are not only placed in the United States, but also in Germany, Mrs. Hieke explained. Granted, the volume of such bonds held by Japan and other Asian investors in Germany is not as big as in the United States, but if several aspects come together, even a small pullout could lead to a drastic drop of values in Frankfurt. A shockwave from Japan and Russia, uncertainties about the future of the single new European currency, and some other bad market news could very easily form an explosive mix that might send the stock market index down, she said. And, if that happens, the real vulnerability of the German financial market would be brutally exposed, she warned.

The fact is that the government has invested a great deal of effort in lifting a number of regulations that were originally designed to protect domestic investors from global market shocks. This was done with the intent of making the German stock and bond markets even more attractive for flight capital from Asia. The Third Law on the Promotion of Financial Policy, as the legislation is called that went into effect this April, has deregulated the market to a greater extent than one would find in such deregulated marketplaces as London, New York, or Singapore.

For example, the old regulations that made it mandatory for any fund manager to document a two-year record of sound financial activities, were lifted by the new law. And a regulation that guaranteed the 30-year right of a shareholder to sue a banker or fund manager for compensation for losses caused by unsound or criminal investment operations, was lifted, and replaced by a three-year deadline. This is particularly absurd, as many Germans invest their savings in longer-term bonds and stocks, to improve their pension levels, and the maturity of these bonds is mostly greater than three years. If a fraud is revealed, the bondholder will find out that it is too late to sue anybody, or to look for compensation.

How could such a law get passed by the Parliament? Mrs. Hieke said that the banking and political establishment is obsessed with attracting as much money as possible, to pump up the German market. But, she warned, the risks are growing by at least the same rate, as the rate by which the deregulation is advancing.

A similar assessment was given to this author by Manfred Westphal of the AGV, the national umbrella group of 37 consumer rights associations, in a discussion on July 14. A few days before, AGV Managing Director Anne-Lore Koene had warned of the vulnerability of the German stock markets, because of the very advanced deregulation that has been pushed through there.

Westphal said that both at the Frankfurt stock market and at the New Market (specializing in venture capital), asset prices are disproportionately high, some of them even excessively high—a clear sign of speculative activities. That wave of speculation began immediately after the deregulation law went into effect in April. In Frankfurt, he said, there is now less protection against fraud than there is in England, Switzerland, or France. This means that shocks from a new crisis in Asia or Russia will hit Germany much more than other countries, the AGV spokesman warned.