EuroZone Profiteers: How German and French Banks Helped Bankrupt Greece

By Pratap Chatterjee
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Image: (Cartoon: CorpWatch / by Khalil Bendib)

Alexis Tsipras, the prime minister of Greece, has called a national referendum this Sundayto call the bluff of the European Union and International Monetary Fund who are trying to force his country to accept severe austerity in return for effectively rolling over much of the countries' debt.

Today Greece owes its creditors €323 billion ($366 billion), some 175 percent of the country's gross domestic product. How did it end up owing so much money?

"We should be clear: almost none of the huge amount of money loaned to Greece has actually gone there," Joseph Stiglitz, former chief economist of the World Bank and a Nobel Prize winner in economics, wrote in the Guardian newspaper today. "It has gone to pay out private-sector creditors – including German and French banks."

A recent CorpWatch report – The EuroZone Profiteers – can help shed further light on this matter. While it's true that corrupt Greek politicians borrowed billions for shaky government schemes from these banks, there was a very good reason that the financiers made these rash loans: they were under pressure from European Union bureaucrats to compete in a global marketplace with U.K. and U.S. banks.

Take the German banks. While Anglo-American banking is dominated by many branches of a few major banks, Germany had some 4,000 unique institutions in 1990 that made up a three-pillar system of savings banks, co-operative banks, and private banks. These banks lived modestly on miniscule profits of one percent in comparison to Britain's four mega-banks, which boasted returns as high as 30 percent on equity. Under pressure from Brussels, the German government agreed to push some of the bigger banks to become more "market oriented" by withdrawing state guarantees known as "anstaltslast" and "gewährträgerhaftung" to back them up in times of failure.

Likewise Prime Minister Jacques Chirac began a process of privatizing French banks in the late 1980s to "shoulder its responsibilities to the business community." (The banks that had been nationalized over time by General Charles de Gaulle in 1945 and by President Pierre Mauroy in 1982) Like the Germans, the French banks enjoyed state protection, and thus were easily able to raise money to lend out.

The European Union was firmly behind this since they wanted European entities to compete on a global stage. "Sometimes it is said that competition is not to the benefit of all: It can favor larger firms, but hurt smaller businesses. I do not share this view," Mario Monti, the European competition commissioner, said in October 1997. "Naturally, competition will reward greater efficiency. It will put pressure on less-performing companies and on sectors already suffering from structural problems."

But French banks knew that they could not make billions by competing in Germany, nor were German banks expecting to vanquish the French. They looked instead to a simpler and easier market to loan out the plentiful supply of cash they had – the poorer, mostly southern European states that had agreed to take part in the launch of a common currency called the Euro in 1999.

The logic was clear: In the mid-1990s, national interest rates in Greece and Spain, for example, hovered around 14 percent, and at a similar level in Ireland during the 1992–1993 currency crisis. So borrowers in these countries were eager to welcome the northern bankers with seemingly unlimited supplies of cheap cash at interest rates as low as one to four percent.

Take the case of Georg Funke, who ran Depfa, a German public mortgage bank. Depfa helped Athens get a star credit rating, raised €265 million for the Greek government railway, helped Portugal borrow €200 million to build up a water supplier, and gave €90 million to Spain to construct a privately operated road in Galicia. For a while, the middle class in Greece like the middle classes in Spain and Ireland, benefited from the infrastructure spending stimulus. When Depfa nearly collapsed in 2008, Funke was fired.

Or take the case of Georges Pauget, the CEO of Crédit Agricole in France, who bought up Emporiki Bank of Greece for €3.1 billion in cash in 2006. Over the next six years, Emporiki lost money year after year, blowing money on one foolish venture after another, until finally, Crédit Agricole sold it for €1 – not €1 billion or even €1 million – but a single euro to Alpha Bank in October 2012. Crédit Agricole's cumulative loss? €5.3 billion.

Money poured in from other banks like Dexia of Belgium. Via Kommunalkredit, Dexia loaned €25 million to Yiannis Kazakos, the mayor of Zografou, a suburb of Athens, to buy land to build a shopping mall. It made similar loans to other Greek municipal authorities including Acharnon, Melisia, Metamorfosis, Nea Ionia, Serres, and Volos.

"The tsunami of cheap credit that rolled across the planet between 2002 and 2007 … wasn't just money, it was temptation," financial writer Michael Lewis wrote in Vanity Fair. "Entire countries were told, "The lights are out, you can do whatever you want to do, and no one will ever know."

Bloomberg took a look at statistics from the Bank for International Settlements, and worked out that German banks loaned out a staggering $704 billion to Greece, Ireland, Italy, Portugal, and Spain before December 2009. Two of Germany's largest private banks—Commerzbank and Deutsche Bank—loaned $201 billion to Greece, Ireland, Italy, Portugal, and Spain, according to numbers compiled by BusinessInsider. And BNP Paribas and Crédit Agricole of France loaned $477 billion to Greece, Ireland, Italy, Portugal, and Spain.

There is a very good parallel to this situation of cheap and easy money in the recent sub-prime mortgage crisis in the U.S.

In a recent book, A Dream Foreclosed: Black America and the Fight for a Place to Call Home, author Laura Gottesdiener explains that 30 years ago, African Americans were unable to borrow money to buy houses because of a practice called redlining—where banks drew fictitious red lines around neighborhoods they would not lend to even if the borrowers had good credit and good jobs.

Today, redlining is illegal, but the reverse has happened. In the 1990s, poor people around the U.S. were offered 100 percent loans to buy houses at low rates with virtually no collateral.

"The mortgage market for white Americans was flush. There was no more money to be made from issuing mortgages to white Americans. The banks needed new consumers," Gottesdiener told Corporate Crime Reporter magazine. "So, they moved into the minority market. But they weren't selling the conventional loans. They were selling these incredibly exploitative predatory loans."

We know how the sub-prime crisis ended in 2008 – and it almost brought down the global economy.

What happened after the creation of the Euro was very similar. The Greek government is in debt today to Germany and France not just because they borrowed money for unwise projects, but also because the bankers pushed them to take money that they would never have been able to approved under normal circumstances.

But as Stiglitz has noted, these German and French banks have now been rescued. An ATTAC Austria study showed that 77 percent of the €207 billion provided for the so-called "Greek bail-out" went to the financial sector and not to the people.

How the Greeks will vote on the European Union austerity package this Sunday is hard to predict, but more must be done – it is time to investigate the bankers who created the EuroZone crisis and hold them accountable.

But the bankers are not the only ones. There must be repercussions for the European Union bureaucrats and politicians who promoted the idea that free-market competition in financial services would benefit everyone. And not least of all, there should be a serious debate on how to reverse many of the policies that were used to create the European single market in financial services.

***Pratap Chatterjee** is the author of two books about the war on terror: Halliburton's Army: How a Well-Connected Texas Oil Company Revolutionized the Way America Makes Warand Iraq, Inc. (Seven Stories Press, 2004). He is the executive director of CorpWatch and serves on the board of both Amnesty USA and the Corporate Europe Observatory.*

Articles by: **Pratap Chatterjee**