



Institute for International Political Economy at the
Berlin School of Economics and Law (IPE)



Hochschule für
Wirtschaft und Recht Berlin
Berlin School of Economics and Law

The German Financial System and the Financial and Economic Crisis

Daniel Detzer, Nina Dodig, Trevor Evans, Eckhard Hein,
Hansjörg Herr and Franz J. Prante

Book presentation
IPE Political Economy Forum,
Berlin School of Economics and Law

13.07.2017

Some Background: The FESSUD Project

- 2011-16, 15 Partners, coordinator M. Sawyer, University of Leeds, Funding: European Union 7th Framework Programme
- Main research areas of FESSUD
 - Financial development and financial systems (WP2)
 - Causes and consequences of the financial crisis (WP3)
 - Regulation of the financial sector (WP4)
 - Finance and well-being (WP5)
 - Finance, development and global governance (WP6)
 - Finance, environment and sustainability (WP7)
 - Finance, real economy and the state (WP8)
 - Financial stability and macroeconomic policy (WP9)
- Book draws on HWR/IPE contributions to
 - WP2: Study on the German financial system
 - WP3: Study on financialisation and the financial and economic crisis in Germany
 - WP4: Study on financial regulation in Germany

The Book

- Study on the German financial system
- Study on financial regulation in Germany
- Study on the crisis in Germany

- provides a description of the **main characteristics of the German financial system**, a **long-run perspective** on its **development** and an analysis of if and how **‘financialisation’** played out in Germany
 - Some caveat: first study was finished in 2013, so data period often ends in 2012



Content of the Book

Part I Development and Structure of the German Financial System

Part II Competition, Profitability and Efficiency

Part III Finance and the Non-financial Sector

Part IV Finance, Distribution and Crisis

Content of the Book

Part I Development and Structure of the German Financial System

2. The Historical Development of the German Financial System
3. The Growth of Finance and Its Role Since the 1980s—A Quantitative Overview
4. The Institutional Structure of the German Financial System
5. Germany's Integration into International and European Financial Markets
6. Regulation of the German Financial System

Part II Competition, Profitability and Efficiency

Part III Finance and the Non-financial Sector

Part IV Finance, Distribution and Crisis

Content of the Book

Part I Development and Structure of the German Financial System

Part II Competition, Profitability and Efficiency

7. The Nature and Degree of Competition
8. Profitability of the Financial Sector and Sub-sectors
9. Efficiency of the Financial Sector

Part III Finance and the Non-financial Sector

Part IV Finance, Distribution and Crisis

Content of the Book

Part I Development and Structure of the German Financial System

Part II Competition, Profitability and Efficiency

Part III Finance and the Non-financial Sector

10. Sources of Funds for Business Investments: Non-financial Corporate Sector and Small and Medium-sized Enterprises (SMEs)
11. The Involvement of the Financial Sector in the Restructuring of the Economy
12. Privatisation and Nationalisation Policies and the Financial Sector
13. The Financial Sector and Private Households
14. The Real Estate Sector and Its Relation to the Financial Sector

Part IV Finance, Distribution and Crisis

Content of the Book

Part I Development and Structure of the German Financial System

Part II Competition, Profitability and Efficiency

Part III Finance and the Non-financial Sector

Part IV Finance, Distribution and Crisis

15. Financialisation and Income Distribution

16. Crisis and Macroeconomic Policies

17. Final Conclusions

Some Results: Part I Development and Structure of the German Financial System

- **Financialisation ? Yes, but a more modest ‘financialisation made in Germany’**

Large scale deregulations and neo-liberal financial market reforms only in the late 1990s and early 2000s

- Lobbying by the big banks “Initiative Finanzplatz Deutschland” and their strategic shift towards investment banking
- Political agenda to move to a market based financial system (Dissolution of Deutschland AG)
- EU Commission financial market regulations in the attempts to create a single financial market

Bifurcation of the financial system

- The house-bank principle has remained the primary business model for small and medium sized banks (mainly savings and cooperative banks)
- Main changes for big (private) banks: internationalisation, focus on capital market business also facilitating development of shadow banking system

Resilient institutions

- Still dominant non-profit banking (savings banks, cooperative bank)
- Attempts at developing a ‘stock market culture’ in Germany had only limited success
- Shareholder value logic in corporations was tamed by co-determination structures

Some Results: Part II Competition, Profitability and Efficiency

- Claims that the German financial system is **uncompetitive**, has **low profitability** and is **inefficient** (SVR, OECD, IMF), in order to advocate privatisation of public banks and consolidation in cooperative sector
- **Little evidence** for the claims and especially for the reform suggestions
 - **Profitability** of the German banking sector has indeed been low in international comparison (non-profit maximisation of savings and cooperative banks), lower lending rates of public savings banks, problems with Landesbanken
 - **Competition** in Germany has been relatively high in international comparison
 - **Efficiency** is on comparable level with other countries; local public and saving banks are more efficient than the big nationally active banks; small size of local banks does not seem to be a problem for efficiency, partially due to integration of publicly and collectively owned banks in banking group

Some Results: Part III Finance and the Non-financial Sector

- **Weak investment in capital stock** of non-financial business under conditions of rising profitability since mid-1990s, **rising relevance of financial profits received and paid out** (preference and internal means of finance channel)
- **Internal means of finance** as major source of investment, **bank credit as preferred external source** if required, in particular for SMEs, no credit crunch in the course of the crisis
- **Rising household saving rates** since early 2000s (re-distribution + precautionary saving under the conditions of structural reforms), saving mainly directed to **deposits, saving accounts, insurances and pension funds**, no stock market culture, **low house ownership rates**, no houseprice increases before crisis

Some Results: Part IV Finance, Distribution and Crisis - 1

- Indication for **distributive effects of financialisation** also in Germany (shift in sectoral composition away from public sector, rising profit claims and financial overheads, falling bargaining power of labour)
- Germany as the „**sick man of Europe**“ before the crisis: Low private consumption demand, low investment demand, increasing reliance on net-exports as a driver for demand
- Germany as an **export led mercantilist economy** before the crisis
- Facilitated by rapidly increasing **financial integration of Germany**, high gross capital flows and net-capital exports, marked growth of portfolio investment outflows and in lending abroad by German banks

Some Results: Part IV Finance, Distribution and Crisis - 2

- Due to high international financial and export activity Germany was hit early and heavily by the financial and economic crisis: **financial contagion** (banks) and **international trade channel**
- Since the shock was largely external and the **system stayed largely intact**
 - Local banks compensated for decline in loan supply
 - Working time accounts and fiscal stimuli stabilised demand and employment
 - No need for deleveraging, since there was no debt built-up before the crisis
- **Quick recovery**, when **external demand recovered** (emerging countries), low interest rates and the low external value of the euro supported the recovery
- **Drawbacks** of the recovery based on export-led mercantilist model
 - Continuation of a model, which contributed to world and regional imbalances and to the severity of the crisis in Germany itself
 - Severe tightening of future fiscal space due 'debt brake' (Germany + EU)