# Chancellor Merkel's Moment of Truth: What About the Casino Economy?

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March 6—We in Germany face a dramatic dilemma: 85% of citizens are worried that Germany is facing an existential crisis without real leadership, and is demanding, according to the ARD-Deutschlandtrend pollsters, that Chancellor Merkel lay out more clearly her government's political direction. But there is no informed debate about what this direction should be. No analysis is being presented of the reasons for the crisis, and, therefore, errors are not being corrected; and Frau Merkel is surrounded by what Friedrich Schiller called *Brotgelehrte* [bread-fed scholars] and ideologues, who like their own mental constructs a thousand times better than the truth. Seventy-two percent of Germans are therefore unhappy with the government, so that its approval rating is almost as bad as that of the Obama Administration.


GNU-FDL/Jan Roeder
*Hans-Werner Sinn*

The key reason for this loss of popularity is the same in both cases: The population is sick and tired of seeing taxpayers' money thrown at bankers and speculators, seemingly without end, while for most people, living standards are declining in every nook and cranny. And despite all the phony reprimands to Greece, most people suspect that the real point is not corruption in Greece (what about the same thing in Germany?!), but the system of a casino economy.

For the past 31 months, the systemic crisis has been escalating, enormous industrial capabilities have been destroyed, enormous sums of taxpayers' money were used to "rescue" the banks, or toxic waste was pumped into the system—and still the list of states that are facing bankruptcy is growing, as well as the list of banks to which they are indebted.

## A Glass-Steagall Standard

If the casino economy is not terminated very soon and replaced by the Glass-Steagall standard, and the monetary system replaced by a credit system, the strikes and unrest that we see now in Greece, will soon spread worldwide. We are facing a collapse of civilization.

The "economists" that are quoted by the pro-globalization media are doing everything they can to accelerate this process. Thus Professor Un-Sinn of the IFO Institute[1] has now suggested that the Greek government leave the Eurozone voluntarily, because by remaining in it, Greece is destabilizing the euro. That country should then turn for aid to the IMF (which is notorious for its draconian conditionalities). What to make of the competence of this proposal or of the professor? Nothing. Because not only Greece, but also Eurozone members Spain, Portugal, Ireland, and Italy, plus quite a number of countries outside it, notably Great Britain and the United States, are even more bankrupt. The bashing of the Greeks is just intended to obfuscate the fact that the brutal austerity policies that are being demanded for Greece are standing at the ready for everyone, in their own governments' poison lock-boxes.

One of the most revealing insights into Professor Nonsense's competence is to be found in his Feb. 8 article in *Wirtschaftswoche*, in which he responded to President Obama's "Volcker Rule." That is the name of

1. Prof. Hans-Werner Sinn is the president of the Institute for Economics. The pun on his name translates as "Professor Nonsense."

the half-hearted reform proposed by former Fed chairman Paul Volcker, which makes the banks' proprietary trading somewhat more difficult, but is totally undeserving of the name "Glass-Steagall II." Nevertheless, Professor Nonsense deemed that this was "not a good idea"—according to the title of his article.

"The U.S. government's plan to separate investment banking from commercial banking increases the vulnerability of the banking system, says Hans-Werner Sinn," states the editors' blurb introducing the article!? But it gets even better: There is no basis, he says, for thinking that, because, after the repeal of the Glass-Steagall Act in 1999, some commercial banks ventured "tentatively" into investment banking, that this was a cause of the financial crisis. On the contrary, this system—that is, Glass-Steagall—had itself made the crisis worse. As everyone knows (!), he writes, the crisis was triggered by the fact that Lehman Brothers, contrary to expectations, was not rescued by the government in 2008, thereby undermining the banks' trust in one another; the interbank market stalled, the savings of depositors were no longer at the disposal of investors, and as a result, the real economy crashed.

This statement is absurd.

The interbank market did not come to a standstill because the government did not save Lehman Brothers. With the bankruptcies of Lehman Brothers and AIG—which ise now the subject of hearings in the U.S. Congress—the crisis that had already been obvious in late July 2007 (not September 2008!) came into the limelight, revealing that all the banks were sitting on at least three-digit trillions in unmarketable toxic waste, and none trusted the others, because if they had to admit the extent of their own toxic waste, they would all have had to declare insolvency. And since they all knew that the others were in the same situation as they were, interbank trading stopped.

And the toxic waste is nothing but the result of all the innovative financial instruments that "Mr. Bubble," Alan Greenspan, has bestowed upon us since 1987: all the official and over-the-counter derivatives contracts, the entire securitization market, the credit default swaps, etc., which ultimately turn debts turned into assets, and bets into bets into more bets. This is the system that Professor Nonsense wants to hold on to, when he warns that the upcoming G-20 talks should by no means be anchored in the idea of a separated banking system.

But let's again have him speak for himself. The upswing will last until 2010, and the world economy is in a situation more favorable than any in the postwar period, according to one of the professor's predictions, reported in the *Westdeutsche Zeitung* on March 16, 2007—four months before the outbreak of the systemic crisis. On Dec. 11, 2006, he spoke with *Der Spiegel* magazine about the eternal ups and downs of the economic cycle.

## The Sorry Professor Un-Sinn

Perhaps the reason for the abysmal inaccuracy of these forecasts is that he is not really an economist, but a philosophical follower of the Mandevillean thesis, that "private vices" ultimately contribute to the "public benefit" (see box). In any case, he told Profil magazine on May 18, 2009, that man's drive to get rich is the motive force for economic development. The only thing needed is to channel that drive in the right way.

Couldn't a friendly fellow human being point out to him that people are not pigs that only want to feed at the trough, and that the driving force for economic development is man's creative ability to always come up with newer and better hypotheses about the laws of the universe? And that the application of this scientific progress, by introducing new technologies into the production process, is what raises productivity, which, in turn, increases living standards, which, if properly channeled—e.g., with better education, therefore, more creativity in the population—leads to more scientific progress, etc.

This driving force of human creativity, of course, has nonlinear effects on the economy. But the professor does not look at it that way; instead, he projects the statistical "patterns of previous decades" onto the future. Or even worse, he distributes questionnaires every month to companies, including those in manufacturing and construction, wholesale and retail, with a request that they disclose their economic expectations for the next six months. From this collective tea-leaf reading, he then creates the so-called IFO Business Climate Index. It's hard to imagine anything more unscientific.

His panacea is that the banks be forced to have higher capital reserves, because someone who has to set aside more of his own capital will behave more prudently. This analysis of excessive risk-taking which is caused by too little equity capital, was a central theme of his doctoral dissertation in 1977—that is, ten years before Greenspan brought his "creative financial instruments" into play, which created the gigantic sums of virtual capital in the first place! According to figures from the Depository Trust and Clearing Corporation, the sum of open CDS contracts alone is now $25 trillion. If the banks speculated "more prudently," due to increased capital requirements, this would not change much anyway.

### Schiller on the 'Bread-Fed Scholars'

Friedrich Schiller says of the bread-fed scholar, in his lecture "What Is, and to What End Do We Study Universal History?":

"He will direct all his diligence to the demands made upon him by the future master of his fate, and he will believe he has achieved everything, once he has gotten over his fear of this authority. Once he has run his course and attained the goal of his desires, he dismisses the sciences that guided him, for why should he bother with them any longer? His greatest concern now is to display the accumulated treasures of his memory, and to take care that their value does not depreciate. Every extension of his bread-science upsets him, because it only portends more work, or makes the past useless; every important innovation frightens him, because it shatters the old curriculum that he worked so hard to master, threatening to obliterate all his preceding life's work. Who rants more against reformers than the gaggle of bread-fed scholars? Who holds up the progress of useful revolutions in the domain of knowledge more than they do? Every light radiated by a happy genius, in whichever science it may be lit, makes their poverty apparent; they joust with their opponents using bitterness, treachery, and desperation, because in defending their curriculum, they are also doing battle for their entire existence. . . ."[2]

Perhaps it is not fair to pick on poor Professor Nonsense, because many of his colleagues have similar problems. But the subject is too serious. If a banking system is not introduced that separates commercial from investment banking, and there are still gigantic amounts of toxic waste to be disposed of, then hyperinflation is inevitable. And our democracy certainly will not survive the general devaluation of pensions, savings, and wages of the average population. Their condition is already bad enough.

What we need in Germany is a public debate about the Glass-Steagall Act. Frau Merkel is on notice.

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2. Adapted from the translation in *Friedrich Schiller: Poet of Freedom*, Vol. II (Washington, D.C.: Schiller Institute, 1988).

## The Satanist Mandeville: Prof. Un-Sinn's Idol?

Bernard de Mandeville (1670-1733) was a founder of the Hell Fire Clubs, a satanic cult, that exerted extraordinary influence over a succession of early 18th-Century British governments, and whose outlook continues to inspire the Libertarian movement today—and also, apparently, Prof. Hans-Werner Sinn.

Mandeville's best-known work is *The Fable of the Bees: Private Vices, Publick Benefits* (1714), in which he argued that man is inherently evil and consumed by uncontrollable passions: greed, lust, rage, violence. Since this is man's nature, Mandeville argued, the best society is that which is least intrusive, which makes no effort to impose any form of natural law. For Mandeville, the idea that man was created in the living image of God is not only untrue; it is the seed of destruction.

Mandeville wrote:

. . .Thus every Part was full of Vice,
Yet the whole Mass a Paradise
Flatter'd in Peace, and fear'd in Wars
They were th' Esteem of Foreigners,
And lavish of the Wealth and Lives
The Ballance of all other Hives.
Such were the Blessings of that State;
Their Crimes conspired to make 'em Great;
And Vertue, who from Politicks
Had learn'd a thousand Cunning Tricks,
Was, by their happy Influence,
Made friends with Vice: And ever since
The Worst of all the Multitude
Did Something for the common Good.

This is the view that was adopted by David Hume, Adam Smith, Jeremy Bentham, and all subsequent charlatan philosophers and economists of the British East India Company. Revolt against this evil was the essential feature of the American Revolution and the nation-state concept embedded in the Declaration of Independence and the U.S. Constitution.—*Jeffrey Steinberg*