EIR World News

AN APPEAL FOR A TWO-TIER BANKING SYSTEM

Without Glass-Steagall, Europe Will Go Under!

by Helga Zepp-LaRouche

If Europe's nations follow the recommendations of the European Central Bank, contained in its recently published annual financial stability report, then Europe will plunge into economic, political, and social chaos. The ECB warns politicians and banking supervisors against forbidding local banks from trading with hedge funds and private equity firms—i.e.: Keep the casino economy going!

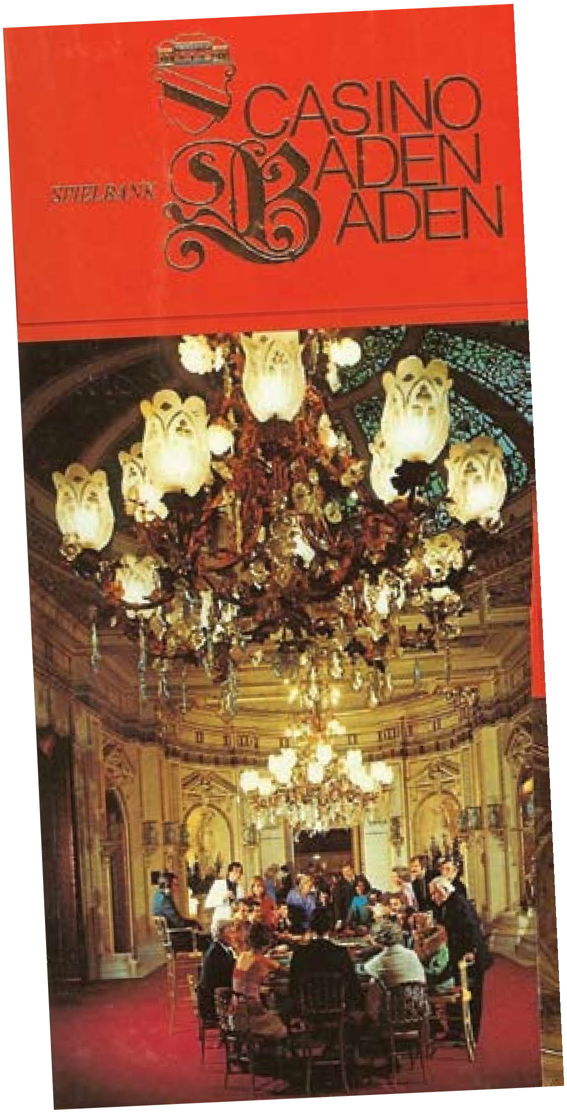
To recapitulate: For almost three years now, the biggest crisis in the history of financial markets has been escalating, and throughout this period, the G20 countries have done nothing to overcome the crisis. The plethora of new "bailout packages" for the banks has only accomplished one thing: A debt crisis of private financial interests has turned into a debt crisis of governments, which taxpayers are supposed to pay for—in addition, of course, to the nominal book value of the money that was gambled away.

When the Cologne city archive building collapsed in March, countless engineers tried to figure out how it could have happened. But here the worst financial crisis of all time is raging, and no in-depth analysis of its causes has been conducted, nor has there been re-regulation of financial markets. Derivatives and high-risk speculation, according to the ECB, is supposed to continue, with just a couple of cosmetic corrections. This could lead to a meltdown of the system at any time, such as nearly occurred with the bankruptcy of Lehman Brothers in 2008. Crashing stock prices, such as the collapse of the Dow Jones on May 6, which went down 10% in 16 minutes (!), demonstrate the vulnerability of automated stock market trading systems. The entire financial system could disintegrate.

Since we can presume that the ECB is amply supplied by economic and financial intelligence sources, we can only conclude that they are prevaricating when their report inveighs against the Obama Administration's intended introduction of the "Volcker Rule," portraying it as if it were the modern equivalent of the Glass-Steagall standard used by Roosevelt in the 1930s to introduce a two-tier banking system. In fact, the Volcker Rule is a rotten compromise, which leaves gaping loopholes for a continuation of high-risk speculation. The actual Glass-Steagall legislation, proposed by Senators Maria Cantwell (D-Wash.), John McCain (R-Ariz.), Ted Kaufman (D-Del.), Russ Feingold (D-Wisc.), and Tom Harkin (D-Iowa), ran up against a storm of opposition from the White House and Wall Street. And it has been the striking down of this two-tier banking law, and also of a second law banning derivatives speculation, which has brought the revolt against the Obama Administration to the boiling point.

'A Monetary Policy Coup'

What the ECB is proposing instead, is to increase banks' capital reserves, thereby increasing their "emergency buffer." The German Economics Ministry's scientific advisory counsel went so far as to propose a tripling of capital reserves, as well as the creation of an independent regulatory body—i.e., even more bureaucracy—to oversee insurance and securities transactions. The ECB therefore does not even touch upon the fundamental



The European Central Bank is determined to keep the "casino economy" going, by preventing the adoption of a Glass-Steagall standard.

issue of speculation, but simply recommends that the speculators' saddles be more lavishly upholstered.

The ECB finally lost its last vestige of credibility as the guardian of currency stability, when, in a maneuver which the Vienna paper *Die Presse* described as a "monetary policy coup," it ambushed the German government by reversing its previous opposition, and caused Germany to agree to the EU750 billion "bailout package," thereby nullifying the Maastricht Treaty's "no bailout" clause. And ever since then, ECB president Jean-Claude Trichet has been happily buying up the sovereign debt of insolvent member-states, to the tune of EU320 billion so far, with EU2 billion more each day. And then in the above-mentioned financial market stability report, it covers itself with a fig leaf, saying that the central bank nevertheless warns that many banks are underestimating the risk of climbing interest rates that could result from hikes in the prime rate, or from a worsening of the debt crisis. So, behold the careless banks—but, who makes the rules for the casino where they're playing?

And so, democracy has been discarded, and the news commentaries don't even bother to deliver a eulogy. This EU monetary coup, whereby the German government was ambushed, and both houses of parliament were degraded to the status of passive sentries, was a test for how a European economic government, as is currently being pushed, especially by the French, would function, if it ever were to come to that.

What Does Köhler Know?

Whatever Horst Köhler officially gave out as his reasons for resigning as Germany's President, the fact remains that when he said he had received treatment injurious to the integrity of his office—in connection with the campaign against him because of remarks on the role of Germany's army, the Bundeswehr—this doesn't mean that there weren't other injuries to his office as well.

Judging from earlier statements by Köhler concerning orderly bankruptcy proceedings against insolvent nations, we can assume that he perhaps did not approve of the way the government was induced to agree to the "bailout package." But he was nevertheless obliged to sign the legislation which had been hastily pushed through both the Bundestag and the Bundesrat. As *Focus* reporter Frank Thewes wrote, "If he had publicly expressed concern over this, financial markets worldwide would have interpreted this as Germany's rejection of the euro, thereby unleashing a fiasco. For better or worse, Germany's President had to play along in a game that wasn't of his own making." Hans-Olaf Henkel, on the talk show "People with Maischberger," expressed similar suspicions.

Köhler, who was formerly president of the Savings Bank Association, and also former managind director of the International Monetary Fund, is obviously in a better position than many others, to calculate the consequences of the ECB's current policy. We can assume that he is aware that further demands for more and bigger "bailout packages" are in the immediate offing, as soon as the next sovereign bankruptcies of Spain, Portugal, Italy, Ireland, and other candidates become imminent. And as the IMF's former chief, it can also be

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German President Horst Köhler announces his resignation on May 31. Köhler, as former head of the International Monetary Fund, is in a better position than most to know what crisis Europe is facing.

no secret to him, that by this coming September at the latest, the IMF will have reached its spending limit, as specified by its own statutes.

A Push for Synarchist Rule

It's only a matter of time before word gets around in Germany, that in France, a whole slew of government advisors and press spokesman have been coming out with proposals which are in the best tradition of the synarchist-fascist financial elite of the 1930s, and which contain open calls for dictatorial measures. The chief editor of *L'Express*, for example, wrote on May 12 that a "legitimate *putsch* is necessary in order to install a common European government, a common budget, and prearranged models which the population will never have a chance to vote on; and President Sarkozy should control the debate among the members of the heads-of-state club." No, thanks!

Alain Minc, a top financier and advisor to Sarkozy, goes so far as to say that it's demagogical and criminal to let the population believe that they must be consulted in making each and every great step toward the construction of a single Europe, and that we already saw in the referenda what would come of that. Jacques Attali, who advised former President François Mitterrand in the latter's threats against Chancellor Helmut Kohl over the function of the D-mark, is demanding the immediate formation of a European financial agency which will be empowered to regulate a nation's budget in the event that the nation's indebtedness exceeds 80% of its gross domestic product. *Le Monde*'s Arnaud Leparmentier is blowing on the same horn, calling for a European secretariat of heads of state, which is to constitute Europe's actual economic government.

The combination of all these proposals places us in the worst of all possible worlds. The ECB openly favors a policy of "quantitative easing," which in plain language means printing more money and buying up toxic financial waste. Generations of Germans still feel in their bones the hyperinflation of 1923, which broke out when more money was printed than the economy could possibly generate. And in Germany, we have also had the bitter experience of what happens when you impose a Brüning-style austerity regime in the midst of a depression.

But it is precisely this brew which the EU Commission and the ECB are now campaigning for. Absurdly, even in the IMF itself, there are certain forces which have realized that all of the IMF's recipes, from the 1990s onward, have been failures. For example, when Argentina was forced to cut its budget, devalue its currency, and privatize its industry, the result was that its national patrimony was squandered and the country was bled dry. And that's precisely the medicine that Greece is supposed to swallow now. And Greece is going to need a miracle, if it is to ever regain the strength to repay all of this debt.

There Is a Solution

So, what is the outlook at present? We venture to forecast that the G20 summit in Canada in late July will once again fail to result in even the most vaguely approximate solution—even if, by that time, there is a new U.S. administration, something that can't be ruled out, given the popular rage boiling up against President Obama because of his sucking up to Wall Street and BP. Even more unlikely, is that London, which is defending its "finance industry" tooth and nail, would agree to any actual reregulation of financial markets.

After the inevitable climax of the economic, political, and social crisis of the insolvent countries in Europe and elsewhere, and after recognizing that states and municipalities are no longer able to maintain even the most basic functions for the general welfare, one sole alternative approach will remain in the wake of the upcoming G20 summit, if a plunge into total chaos is to be avoided: Europe's nations must draw their own conclusions from the fact that the ECB has sided with the speculators and is fostering inflation: They must institute a two-tier banking system.

Commercial banks that issue credit for industrial and agricultural production, trade, and projects for the general welfare, must be protected. Investment banks, on the other hand, must no longer be given access to commercial banks' deposits. If the investment banks have gambling losses, they will have to pay the damages out of their own pockets, without taxpayer funding. And the commercial banks must be liberated from toxic financial waste, and must not be allowed to participate in high-risk speculation. In short, they must be turned back into industrial banks.

Insolvent states will require orderly bankruptcy procedures whereby their financial sector is restructured. The affected banks must accede to getting "haircuts." Once these states have regained control over their own currency and credit creation, they must issue targeted lines of credit for financing well-defined economic growth programs according to physical-economic criteria. Cooperation among Europe's sovereign republics would be highly desirable in this connection, so that the nations of southern and eastern Europe could implement real economic reconstruction programs. Because this is precisely what is completely lacking in the EU's and ECB's current policies: a growth perspective!

Germany itself will experience an economic recovery only if we exit from the Eurozone as quickly as possible, regain sovereign control over our D-mark, and hearken back to the economic and moral paradigm of our post-1945 reconstruction, which brought us the German Economic Miracle. We must return to concentrating on scientific and technological progress, and we must discard green, post-industrial service-economy utopias as failed experiments, as we must also discard the euro.

Let's get to work!

The author is the chairwoman of Germany's Civil Rights Solidarity Movement (BüSo). Her article was translated from German.

What Is Synarchism?

"Synarchism" is a name adopted during the Twentieth Century for an occult freemasonic sect, known as the Martinists, based on worship of the tradition of the Emperor Napoleon Bonaparte. During the interval from the early 1920s through 1945, it was officially classed by U.S.A. and other nations' intelligence services under the file name of "Synarchism: Nazi/Communist," so defined because of its deploying simultaneously both ostensibly opposing procommunist and extreme right-wing forces for encirclement of a targetted government. Twentieth-Century and later fascist movements, like most terrorist movements, are all Synarchist creations.

Synarchism was the central feature of the organization of the fascist governments of Italy, Germany, Spain, and Vichy and Laval France, during that period, and was also spread as a Spanish channel of the Nazi Party, through Mexico, throughout Central and South America. The PAN party of Mexico was born as an outgrowth of this infiltration. It is typified by the followers of the late Leo Strauss and Alexandre Kojève today.

This occult freemasonic conspiracy, is found among both nominally left-wing and also extreme right-wing factions such as the editorial board of the *Wall Street Journal*, the Mont Pelerin Society, and American Enterprise Institute and Hudson Institute, and the so-called integrist far right inside the Catholic clergy. The underlying authority behind these cults is a contemporary network of private banks of that medieval Venetian model known as *fondi*. The Synarchist Banque Worms conspiracy of the wartime 1940s, is merely typical of the role of such banking interests operating behind sundry fascist governments of that period.

The Synarchists originated in fact among the immediate circles of Napoleon Bonaparte; veteran officers of Napoleon's campaigns spread the cult's practice around the world. G.W.F. Hegel, a passionate admirer of Bonaparte's image as Emperor, was the first to supply a fascist historical doctrine of the state. Nietzsche's writings supplied Hegel's theory the added doctrine of the beast-man-created Dionysiac terror of Twentieth-Century fascist movements and regimes. The most notable fascist ideologues of post-World War II academia are Chicago University's Leo Strauss, who was the inspiration of today's U.S. neo-conservative ideologues, and Strauss's Paris co-thinker Alexandre Kojève.

—Lyndon H. LaRouche, Jr.