London Hyperinflation Policy Opposed to Glass-Steagall

by Paul Gallagher

June 20—The June 11 attempted bailout of Spanish banks' debt failed immediately and backfired spectacularly. It is now only a short time before a desperate City of London imposes a policy of deliberate hyperinflation on all the trans-Atlantic nations including the United States—or, those nations re-enact Franklin Roosevelt's Glass-Steagall law on an emergency basis, to successfully reorganize their banking systems. The outcome of this fight will determine the future fate of the U.S. economy—rebuilding, or complete wreckage, like that of 1923 Weimar Germany gripped by hyperinflation—as well as those of European nations.

The June 11 events, which proved the futility of any further attempts to bail out the insolvent, frozen-up megabanks of Europe, with their $5-6 trillion in unrecognized bad debts, ironically triggered an all-out British campaign, starting four days later, for huge new bank bailouts by central banks.

The EU100 billion Spanish bank bailout by European "rescue funds," proposed June 11, was risible against the conservative estimate of EU450-500 billion of bad debt on Spanish banks' books; but it was a big enough new debt, piled on mountains of unpayable debt, to send Spain's sovereign and bank debt reeling. Spain's 10-year bond yield skyrocketed, reaching 7.35% a week later. The quick deterioration of Spanish government debt, in turn, hit the Spanish banks which are loaded with it. Fitch Ratings downgraded Spain's biggest banks, Santander and BBVA, two notches to BBB, not far above junk. The clear image was of the driver who turns the wheel hard right, and sees the car go sharply left in response.

Italy was also swept in, its 10-year debt rate leaped to 6.28%, and Austrian Finance Minister Maria Fekter said Italy may need an EU bailout—ritually denounced, of course, by Italian fiat-premier Mario Monti. Suddenly, all the "experts" were talking about the panic of bondholders whose bonds become subordinated to masses of new supranational-institution (bailout) debt. Greece was forgotten; steady electronic bank runs and capital flight from Spain and Italy took center stage, with indices of banks' short-term liquidity operations flashing red.

Any attempt at a massive bailout by the EU of Spanish and Italian sovereign and bank debt is patently impossible; but "a global bailout of Europe's banks" is exactly the British demand, raised already on May 25 by former Chancellor/Prime Minister Gordon Brown in the *New York Times*.

Los Cabos Fraud

The furious British drive—aided by President Obama—to force Germany, immediately, to agree to a money-printing hyperinflation to "save" the banks, was brutally obvious on June 19 as the G-20 summit

in Los Cabos, Mexico ended. Days earlier, on June 15, Bank of England head Mervyn King and Chancellor George Osborne had held emergency conference calls with European finance ministers, and then made public calls to all central banks to print money, fast. King said that the banks of Europe were insolvent—"it's a solvency, not a liquidity crisis"—and then demanded that governments provide the banks ... much more liquidity. "We have thrown at this everything bar the kitchen sink," said King; and then demanded "more drastic measures" were necessary. The Bank of England would immediately print and lend British banks £100 billion.

Then, on the evening of June 19, the London *Telegraph, Guardian,* and *Observer* newspapers all published reports "from the Los Cabos summit," that a deal for a roughly $1 trillion bailout of Spanish and Italian debt by the European bailout funds—European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM) had been reached, at the demand of Obama and British Prime Minister Cameron. These authoritative-sounding reports appeared only in British media, and they were false. The German government, the next morning, June 20, denied that this "deal" had even been discussed at Los Cabos, where Obama and Cameron had had a "sub-meeting" on the bank crisis with European leaders after the G-20 summit formally ended.

And the EFSF and ESM do not have, of course, EU750 billion, or $1 trillion, to buy Spanish and Italian bonds on the open market; these funds have only the authorization to raise that amount on the markets themselves, and the ESM authorization has not yet been approved by the German Parliament. And $1 trillion "would be nowhere near enough" to cover European banks' bad debts, to quote Gordon Brown's acknowledgment in his May 25 *New York Times* op-ed.

But this hyperinflationary bailout is "the deal" nonetheless, unless it is stopped by a Glass-Steagall reorganization, which must start with a U.S. re-enactment of FDR's original Glass-Steagall Act.

Listen to Chancellor of the Exchequer George Osborne, quoted by the London *Daily Telegraph* June 19: "There are systemic problems in the eurozone which require a systemic answer.... Common resources [must be] transferred from richer countries to poorer countries, [to show] that *the whole eurozone stands behind the banks of the eurozone*.... I think there are signs that the eurozone are moving towards richer countries standing behind their banks and standing behind the weaker countries" [emphasis added].

Crush the National Opposition

It was most notable, behind the chaos caused by the strident British demands for hyperinflation, and the confusion of denials by Germany and Spain that they had agreed to it, that the European Central Bank (ECB) clearly refused to start big purchases of Spanish and Italian debt—for now. And in the United States on June 20, the Federal Reserve Open Market Committee merely extended its existing asset-purchase scheme, did not announce new ones, but introduced new language: "The Committee is prepared to take further action as appropriate to promote a stronger economic recovery," thus effectively authorizing Fed chairman Ben Bernanke to gear up money-printing when he thinks necessary.

The City of London "imperial" strategy for forcing through its hyperinflation policy by manipulation, was described fairly clearly, if to a relatively small and elite audience, by Deutschebank CEO Josef Ackermann at the Atlantic Council in Washington May 20. Ackermann is chairman of the Institute for International Finance (IIF), the "lobby" of the biggest international banks. He explained that new central bank bailout operations would be held in reserve, or used only in small steps, until the bank crisis became really extreme and acute; by going "to the precipice," *governments* had to be compelled to give up their sovereignty and throw their revenues and credit into bank bailouts. Two days later, ECB head Mario Draghi said the same thing, while declining to lower ECB interest rates. A day after that, Bernanke repeated it again, telling the Senate Banking Committee, there will be no more qualitative easing from the Fed for now—"Congress must do its job."

The collapse has accelerated the scheme; London is determined the German government will capitulate and commit all its credit by the end of June. Then, London wants the ESM fund to be licensed as a bank, in order to be able to borrow from the ECB and launch the really huge, multi-trillion-dollar money-printing. *Telegraph* financial columnist Ambrose Evan Pritchard quoted former Foreign Minister David Owen on June 20: "This is not going to work unless they let the fund gear up and draw on the full firepower of the ECB.... Any bond purchases must be on a crushing scale to eliminate all doubts...."

Glass-Steagall

What will be "crushed," after national sovereignty, is national economies suddenly thrust from deep recession into hyperinflation.

But when the Glass-Steagall Act was still in full force and enforcement—before Alan Greenspan's consolidation of power over the Federal Reserve and other regulatory agencies—it prohibited any protection/insurance being given by either the Fed or the FDIC, to the "low-quality securities" of any "non-bank." And virtually all the major British and other European banks were—and are—"non-banks" under Glass-Steagall because they massively violate its principles of banking separation, and protection of commercial banking only. And they are clearly loaded with "low-quality securities": $5 trillion of bad assets, even by the estimate of the International Monetary Fund.

Re-enactment of Glass-Steagall, by passage of the House legislation H.R. 1489, and passage in the Senate, as well as in the nations of Europe, is the one action that can stop London's and Obama's brutal drive for hyperinflation.

Appeal to Governments And Parliaments: Glass-Steagall Now!

June 18—*Helga Zepp-LaRouche, chairwoman of the BüSo party in Germany, (www.bueso.de) issued this statement today.*

1. All nations of the Trans-Atlantic region must enact a law which would separate commercial banks from investment/speculative banking entities, based upon Franklin D. Roosevelt's Glass-Steagall bill of June 16, 1933. Up until the beginning of the 1980s, the principles of Roosevelt's reform were in place in European nations, in the form of strict regulation, and ensured that the banking sector mainly took on the character of commercial banks, and access to private accounts for risky speculative operations was impossible.

As things stood before Glass-Steagall was dismantled in 1999 by the Gramm-Leach-Bliley Act, commercial banks must once again be completely separated from both investment banks and the insurance sector.

2. Commercial banks must be put under government protection, while the investment banks put their books in order without taxpayers' money, which in practice means that toxic paper must be written off in the trillions, even if this leads to the insolvency of the banks themselves.

3. A National Banking system in the tradition of Alexander Hamilton, within the framework of a new Credit System, must provide long-term credit with low interest rates for productive investments, which would in turn increase the productivity of the economy by promoting an increase in energy-flux density, and in scientific and technological progress.

4. The reconstruction of the real economy should be facilitated through long-term treaties of cooperation among sovereign nation-states, which would launch well-defined infrastructure and development projects, in the context of the Mediterranean Plan for an Economic Miracle,[1] seen as a necessary extension of the Eurasian Land-Bridge. These contracts represent a de facto new credit system, a New Bretton Woods system, in the tradition of Franklin D. Roosevelt.

The purpose of re-enacting Glass-Steagall and implementing a Credit System is by no means only to bring about an improvement of technical details in banking, but rather, how the economy can ensure the survival of humanity over a period spanning many generations into the future, while increasing the productive powers from one generation to another. Human beings must once again be at the center, and the very purpose, of economics.

We, the undersigned, direct our urgent appeal to governments and parliaments, that they fulfill their constitutional duty and protect the general welfare of the populations they represent, by immediately enacting Glass-Steagall banking separation into law.

1. See *EIR*, June 8, 2012.