'RINGFENCING' AND 'LIIKANEN PLAN' ARE FAKES

Only FDR's Glass-Steagall Can Solve the Crisis

by Alexander Hartmann

Jan. 26—The whole facade of apparent solvency of the major Western banks, which was created and is being sustained by bailouts, creative accounting, fraudulent transactions such as manipulation of the Libor interbank rate and even money laundering, stands and falls with the ability of governments and central banks to keep pumping money into the financial bubble. If they could not or were not willing to do this, the banks would simply be bankrupt.

This reality, which Lyndon LaRouche and his international movement have underlined for many years, is now gradually making its way into the public debate. For example, Andrew Haldane, the Bank of England's executive director for financial stability, in an article on the website Voxeu.org on Jan. 17 ("Have We Solved 'Too Big To Fail'?"), pointed out that the banks are still being kept alive intravenously by governments and central banks. The improved credit rating because of implicit state guarantees for "systemically important financial institutions," he writes, "translates into a large implicit subsidy to the world's biggest banks in the form of lower funding costs and higher profits. Prior to the crisis, this amounted to tens of billions of dollars each year. Today, it is hundreds of billions."

On Jan. 4, the widely read commentator Matt Taibbi wrote in *Rolling Stone* magazine:

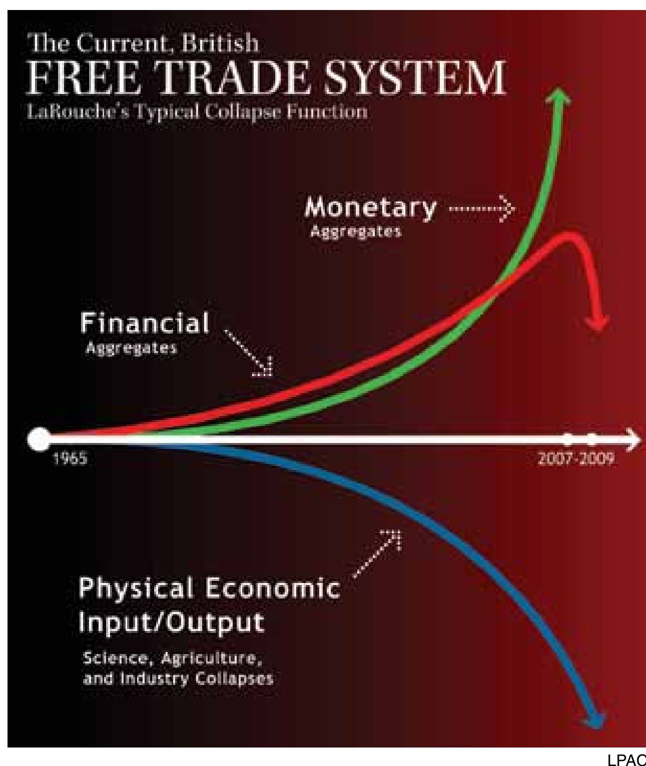
"It has been four long winters since the federal government, in the hulking, shaven-skulled, Alien Nation-esque form of then-Treasury Secretary Hank Paulson, committed $700 billion in taxpayer money to rescue Wall Street from its own chicanery and greed. To listen to the bankers and their allies in Washington tell it, you'd think the bailout was the best thing to hit the American economy since the invention of the assembly line. Not only did it prevent another Great Depression, we've been told, but the money has all been paid back, and the government even made a profit. No harm, no foul—right?

"Wrong. It was all a lie—one of the biggest and most elaborate falsehoods ever sold to the American people. We were told that the taxpayer was stepping in—only temporarily, mind you—to prop up the economy and save the world from financial catastrophe. What we actually ended up doing was the exact opposite: committing American taxpayers to permanent, blind support of an ungovernable, unregulatable, hyperconcentrated new financial system that exacerbates the greed and inequality that caused the crash, and forces Wall Street banks like Goldman Sachs and Citigroup to increase risk rather than reduce it."

The outgoing managing director of the International Institute of Finance (IIF), Charles Dallara, had to admit to journalists that he feels "uneasy" about the future, *Handelsblatt* reported on Jan. 22. "The markets are only insufficiently prepared for the idea that the central banks one day will have to tighten their monetary policy again," he said.

German economists Harald Hau and Hans-Werner Sinn were even more explicit, writing in the *Frankfurter Allgemeine Zeitung* on Jan. 22, under the headline "The Dangerous Dimension of Banking Union":

FIGURE 1



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"The banking systems are on the verge of bankruptcy, and the banks' creditors will not be able to get their money back if they don't find other people to repay them instead of the banks." The catastrophic write-down of losses to the taxpayers will lead to "a destabilization of euro countries that are still healthy," they write. The Banking Union proposed by the EU Commission was "presented to the public as a means to erect a firewall to protect the southern Eurozone countries, but in reality they opened a fire conduit that allows the flames to burn through even the budgets of those Eurozone countries that are still healthy."

Worse than 2008

Indeed, the crisis today is much worse than in 2008, because there is now much more "toxic waste" in the financial markets: All the money that was pumped into the coffers of the banks did not flow into the real economy, but into the financial markets, creating new and even more gigantic financial bubbles. And because the real economy—not least because of the massive austerity measures that secured funds to bail out the banks—more and more on its knees, the ability of the real economy to support the financial bubble naturally declines, exactly as Lyndon LaRouche demonstrated back in 1995 with his "Typical Collapse Function" (**Figure 1**).

Given that there is less and less available to loot from the governments, the central banks have become more and more blatant in their money printing. True to the promise of Federal Reserve chief "Helicopter Ben" Bernanke, to drop money from a helicopter if necessary to stem the financial crisis, the banks have thrown the newly printed money right after the old. The central banks now accept securities as collateral for bailouts that they would not even have accepted as toilet paper in times past, and which today are best used solely for that purpose.

For example, the Federal Reserve increased its holdings of U.S. Treasury bonds from $500 billion at the start of the Obama Administration, to almost $1.7 trillion today, and the banks bought another $1.5 trillion in mortgage-backed securities. The securities holdings of the European Central Bank (ECB) are now up to EU4.0 trillion. And we may safely assume that with all this extra money available, the derivatives bubble has become far greater still.

The consequence of the shrinking of the real economy and the miraculous multiplication of money through the infamous "quantitative easing" by the Fed and other central banks is, of course, that the disproportion between the money supply and real values increases faster: You don't have to be a clairvoyant to realize that unprecedented hyperinflation is looming. And as Lyndon LaRouche stressed on Jan. 24 in an interview recorded for a Russian TV channel, it is the awareness of this imminent explosion that is driving the world towards a general war. We are not dealing with individual wars in Libya, Syria, or Mali, LaRouche said, but with the march toward global war.

Which Two-Tier Banking System?

In this context, it is understandable why more and more bankers and politicians are coming out now for a "two-tier banking system": The current situation has become simply untenable, and it is clear to any serious observer that we must eliminate the bad paper if we don't want it to choke us.

The global campaign of the LaRouche movement bears considerable responsibility for this shift; it is mobilizing in the United States among state legislators, city councils, trade unions, and others in support of HR 129, the bill submitted to Congress by Reps. Marcy Kaptur (D-Ohio) and Walter Jones (R-N.C.) on the re-

instatement of the Glass-Steagall law. Support is rolling in, and suddenly (almost) everyone is for "separation of commercial and investment banks"—and not just in the United States.

But not everyone who talks about a two-tier banking system means President Franklin Roosevelt's Glass-Steagall Act of 1933! A number of other proposals are ending up under this heading—the Volcker Rule, the Vickers Commission's "ringfencing," the Liikanen proposal (see box), and others—whose main purpose is to prevent a real two-tier banking system from coming into being. According to the slogan "Better throw the dog a bone than be bitten by him," they prefer a small concession here and there to the mood of the people and legislators, to genuine reform.

That is the case, for example with the reform plans that German Chancellor Angela Merkel and French President François Hollande announced during their joint press conference in Berlin, after the Franco-German Council of Ministers meeting on the 50th Anniversary of the Elysée Treaty. These plans refer specifically to the Liikanen proposal, which would separate "particularly the risky parts" of the big banks' investment banking business and shift these to a subsidiary.

But it is impossible to be "a little bit pregnant"! A real two-tier banking system means a much more thorough separation: The Glass-Steagall Act prescribed a complete separation of normal commercial banking from investment activities; it banned any financial or personnel linkage between these two banking sectors; and it especially forbade any loans from commercial banks to investment banks or for speculative activities. It established a true firewall, one that is so strong that the commercial banks and the real economy are not affected if the investment banks collapse—and they will collapse, as soon as they are deprived of state funding and access to the savings of the population.

That is what the proconsuls of the Ancien Régime in the financial world fear: They are afraid of the real Glass-Steagall, but not of "ringfences" such as those proposed by the Vickers Commission or Bank of Finland Governor Erkki Liikanen, which they can easily jump over. The world economy can only be healthy if banks are forced to swallow the bitter pill and stop their insane speculation.

The Alternative

LaRouche has repeatedly emphasized that if Obama is removed from office and Glass-Steagall is reinstituted, completely new possibilities will open up. Glass-Steagall must be enforced immediately, to prevent the risk of hyperinflation. On this basis there can be an economic policy revolution and, by instituting a credit system instead of a monetary system, major infrastructure projects can be undertaken. Great projects are the basis for a new relationship among the great powers, starting with the United States, Russia, and China. If we agree on great projects for the benefit of mankind, according to LaRouche, then there will be a basis for a whole new world order. The proposed North American Water and Power Alliance (NAWAPA), the re-mobilization of the space program, the Strategic Defense of Earth, nuclear fusion and fusion—these are the engines of a new global relationship.

This is precisely the approach that Angela Merkel and François Hollande have to take, if they do not want to go down with the investment banks and the universal banks.

Translated from German by Susan Welsh.

Fake Bank Separation Plans

The Volcker Rule is a provision of the Dodd-Frank law (passed in 2010) that has still not taken effect, because regulators and banks are still arguing over it. Proposed by former Fed Chairman Paul Volcker, the idea is that banks should not allowed to engage in "proprietary trading"—making speculative investments for their own gain; they should also not be allowed to perform both an advisory and creditor role with their clients, such as with private equity firms. The devil's in the details.

Ringfencing, proposed by Britain's Vickers Commission, would place a bank's riskier investment activity in a separate legal subsidiary.

The Liikanen proposal submitted by an EU advisory group headed by Bank of Finland Governor Erkki Liikanen, recommends that EU banks' trading businesses be placed in separate subsidiaries, and that banks hold more capital against riskier businesses.