Oligarchy Spins Confusion Over Glass-Steagall

by Helga Zepp-LaRouche

Feb. 1—Given the increasingly obvious disintegration of the trans-Atlantic financial system and the European single currency, on the one hand, and the growing international support for a return to Franklin D. Roosevelt's Glass-Steagall Act on the other, the bankers who want to cling to the casino model of high-risk speculation are getting more and more hysterical. One has the impression that the defenders of globalization have hired an army of PR firms to organize a propaganda campaign against a two-tier banking system, and to spread confusion about it.

A classic example of how the public is misled by the media is an interview with World Savings Bank President Heinrich Haasis in the *Esslinger Zeitung* on Feb. 1. The article is headlined "The Saver, Not the Taxpayer, Pays for the Crisis, " and Haasis explains, in a somewhat abbreviated way, that the European Central Bank's (ECB) low-interest-rate policy, which is what the governments want, has led to "galloping inflation." Inflation for ordinary households is much higher than the official rate of 2.4%, because electricity prices this past year rose 13%, and heating oil, rents, and food have become more expensive, so that the real inflation rate is higher than the official one, he says. When a World Savings Bank head talks about "galloping inflation," that is shocking and the real news value of the interview!

Obfuscation

But what do Stern.de and the numerous financial blogs do in reporting this? A news brief with the headline: "Haasis: Two-Tier Banking System 'Misses the Main Point.'" This is a clinical case of deception by "fallacy of composition." Here is the excerpt from the interview:

Q: "What do you think of the deliberations about a two-tier banking system?"

Haasis: "I think it is a dog and pony show. People want to prove that they are doing something. The truth is, it misses the main point. During the crisis, people said that no bank should be so large that it can blackmail a state. But that is precisely what is not being regulated. Now they explain that 34 banks worldwide are 'important to the system,' and therefore they guarantee their continued existence. Now they are separating out proprietary trading, which is beside the point."

Since Haasis is obviously referring to the confetti debate in Germany about banking separation, he is of course right: The whole discussion about variants of an alleged two-tier banking system—from the Vickers Commission and "ring-fencing," with two separate lines of business but under one roof; to the so-called Volcker Rule portion of the Dodd-Frank Act, which is 848 pages long and has so many regulations that it could end up with 30,000 legal addenda—leaves loopholes as wide as a barn door for high-risk speculators. Indeed it is a dog and pony show.

The Real Glass-Steagall

Someone in Haasis's position must, however, be 100% aware that there is a completely different discussion going on about bank separation, which is anything but a show, but is making the profit-hungry investment bankers' hair stand on end. And that's the very real bill introduced into the U.S. Congress by Marcy Kaptur (D-Ohio) and Walter Jones (R-N.C.), H.R. 129, for the reintroduction of the real Glass-Steagall of Franklin D. Roosevelt in 1933. The appeals by Thomas Hoenig, deputy chairman of the Federal Deposit Insurance Corp. (FDIC) and former head of the Federal Reserve Bank of Kansas City, and Richard Fisher, current head of the Federal Reserve Bank of Dallas [see *EIR*, Jan. 25, 2013], who advocate ending any protection for investment banks, are not for show, but get right down to business. Fisher's recent speech at the National Press Club in Washington is currently an especially hot topic in the Congress and the Senate, as well as throughout the country.

Deutscher Sparkassen- und Giroverband

Heinrich Haasis

The same applies to the call for the right kind of Glass-Steagall by former Italian Economics and Finance Minister Giulio Tremonti, who is currently running in the Italian elections; the impending vote in the Icelandic Parliament; the widespread opposition in France to President François Hollande's watered-down Bank Act, which is calling instead for the original Glass-Steagall, and similar initiatives in many nations.

Haasis contributed to the confusion himself by his unclear formulations, but that is no excuse for the media manipulation.

Why is this so important? Because this is an absolutely typical example of how they try to dumb down and manipulate the population by every means at their disposal.

The Crisis

The reality, however, is that despite all the manipulations and scenarios, we are on the brink of a crisis that will make the collapse of Lehman Brothers in 2008 look like a child's birthday party. The small country of Cyprus, with 800,000 inhabitants, has just asked for a bailout package of EU17 billion—and that with only EU1.5 billion in exports, EU6.5 billion in imports, and a maximum of EU2-3 billion in potential revenues in the case of the sale of state property. Norbert Barthle, budget spokesman for the Christian Democratic caucus in the German parliament, rightly fears "contagion" and systemic risk, but fails to mention that Cyprus was hit by the murderous and incompetent policies of the Troika [IMF, EU Commission, and ECB] toward Greece.

Besides all the known criminal activities in the financial sector (manipulation of the Libor rate, money laundering, tax evasion, the CO_2 certificate swindle, and cheating one's customers, just to name a few), it has now come to light that the oldest surviving bank in the world, Monte dei Paschi in Siena (founded 1472) and Deutsche Bank had used new bets and falsified balance sheets to cover up massive losses in derivatives trading (in the case of Montepaschi, also through government bonds)—a matter that is now being investigated by prosecutors and Monti, and that could bring a premature end to the careers of Italian Prime Minister Mario Monti and ECB President Mario Draghi. [See *EIR*, Feb. 1, 2013.]

The apparently complete lack of any shred of a sense of justice in the banking sector is an additional extremely important reason for the immediate introduction of Roosevelt's original Glass-Steagall Act, which was accompanied by the well-known work of the Pecora Commission, which put the Wall Street bankers responsible for the crash behind bars. It is not only the saver who is paying for the crisis; it is also the taxpayer and every citizen.

Signs of a Strategic Shift

It is a hopeful sign, however, that in some other extremely important areas, there are efforts underway to return to the rule of law. These include:

1. The decision of the U.S. Court of Appeals for the District of Columbia on Jan. 25 that President Obama's "recess appointments" violated the U.S. Constitution's expressly prescribed separation of powers. The court emphasized that the significance of the judgment goes far beyond the specific issue at hand, and concerns all matters relating to the separation of powers among the Executive, Legislative, and Judicial branches. Thus the drive for a "unitary executive" that has been gathering strength from the younger Bush to Obama, has been blocked in a way that could only be reversed at a high political price.

2. The investigation by UN Special Rapporteur on

Human Rights and Counter-Terrorism Ben Emmerson into the U.S. program of targeted assassinations by combat drones. One might come to the conclusion that these killings are war crimes, he said.

3. The lawsuit filed by Noor Khan, son of Pakistani tribal leader Malik Daud Khan, against British intelligence agents whose false information was used for a U.S. drone attack in Pakistan's North Waziristan that killed dozens of civilians. John Bellinger, former legal advisor to the U.S. State Department and National Security Council, repeated in a comment on an article in the *New York Times* of Jan. 30, the same concern that he had already expressed in October 2011 in the *Washington Post*: "Will drone strikes become Obama's Guantanamo?"

4. The finding of the UN Human Rights Commission (UNHRC), that Israel's settlement policy in the West Bank is a violation of the fourth Geneva Convention, including war crimes, and that Israel must begin with the immediate and total withdrawal of these settlements.

What is the common denominator of all these events? At a time when international humanitarian law as well as national constitutions and the rule of law itself are in the greatest danger, these efforts to maintain justice are extremely important.

But implementing the original Glass-Steagall two-tier banking system is the essential first step. It must be followed by a Hamiltonian credit system for the reconstruction of the real economy.

Help us mobilize for this program. And don't take what the media says at face value: Ask what the intention is!

Translated from German by Susan Welsh

Monte dei Paschi Affair Could Bring Draghi Down

The role of Mario Draghi as a failed supervisor in the Monte dei Paschi di Siena bank (MPS) is offering several factions in Europe a common ground to seek an early political demise of the the current European Central Bank (ECB) chairman and, with him, the hyperinflationary policy of saving the euro "at all costs."

Thus, European media jumped on the allegations being raised in Italy, that when Draghi was head of the Italian central bank (2006-07), he failed to act when MPS cooked the books, in order to cover for losses produced by high-risk derivative contracts. Exemplary of the media assault on Draghi is a Jan. 31 Reuters report which challenges his credibility to become the single banking supervisor for the Eurozone, citing a question raised with the EU Commission by European Member of Parliament Mario Borghezio, and allegations publicly made in Italy by former Economy Minister Giulio Tremonti.

"For now," Reuters concludes, "Tremonti and Borghezio are exceptions, as few politicians see any advantage in attacking the non-partisan chief of the ECB, which has bought Italy's government bonds and helped to save it from bankruptcy. But after a triumphant 2012, in which he won much praise for his steps to tackle the Eurozone debt crisis, Monte Paschi is giving Draghi an uncomfortable new year."

The German daily *Die Welt* went so far as to write that MPS "could cost Draghi his job."

In response, the pro-Draghi faction is closing ranks. The German government issued a statement expressing confidence in him, and Italian State President Giorgio Napolitano attacked prosecutors and media for not "defending Italian interests" (!). Draghi himself travelled to Milan on Jan. 28 to meet Finance Minister Vittorio Grilli, who was expected to speak in front of a joint parliamentary committee the next day. Grilli had previously stated that the government had been aware of the problems at MPS for a year, and that the Bank of Italy (BOI) was responsible for supervision. After the meeting with Draghi, Grilli said that the BOI had exerted "thorough and effective" supervision.

However, the central bank shot itself in the foot, when it declared that, as a result of the "effective" supervision, it had forced MPS head Giuseppe Mussari to resign in 2011. This is a confession of guilt, as the BOI should have informed state prosecutors!

Meanwhile, two more investigations into MPS, in Trani and Rome, brought by consumer groups, have been opened. Prosecutors in Siena have added racketeering to the other charges.