

CYPRUS NEEDS A GLASS-STEAGALL SYSTEM

Bankers' Grab of Cypriot Assets Won't Solve the Crisis

by Alexander Hartmann

March 23—One of the most dramatic weeks of the current historical period reached its peak on March 19, at a special meeting of the Cypriot Parliament. On the table was the decision of the Eurogroup on March 15 to levy a compulsory charge on all Cypriot bank accounts—6.7% for deposits up to EU100,000, and 9.9% for those higher, i.e., adding to the existing burden on taxpayers through bank bailouts and savage budget cuts, an out-and-out expropriation. The EU had promised Cyprus a cash injection of EU10 billion, but only if Cyprus itself, with around 900,000 inhabitants, provided a further EU5.8 billion out of the assets of the population; an additional EU7 to 7.5 billion was to be raised from privatization. The proposed compulsory levy was intended to raise Cyprus's share of the rescue package.

This planned de facto expropriation will hopefully finally open the eyes of many of still-lethargic citizens to the fact that the entire financial system—and not just the euro—is completely bankrupt, and we now have to pull the rip cord.

The remark by Finance Minister Wolfgang Schäuble about the accessing of private bank accounts, in which he said that Cyprus would eventually have to come up with the required sums, speaks volumes. Obviously, they EU wants to get the money from those who were believed unable or unwilling to fight.

Helga Zepp-LaRouche commented on these developments on March 20, in an interview (in English) on the website of the Civil Rights Solidarity Movement in Germany (BüSo, <http://bueso.de/node/6375>): “I think that the decision by the EU authorities and the European finance ministers to impose this payment for the Cyprus population, deposits up to the level of EU100,000, has crossed the Rubicon. Mrs. Merkel had promised at one point that people who have deposits up to EU100,000 would have state guarantees for their savings. Now, this is a complete breach of that promise.”

The Cypriot population responded with angry protests against the raid. When it came to a vote in Parliament on the bank bailout package on March 19, *not one* of the 56 members dared to vote for the package and the funds transfer.

Thus the EU plan was initially rejected. But the trans-Atlantic financial system has become so bankrupt that even a collapse of the Cypriot banks could cause the system to collapse, and therefore the EU leadership cannot give up; this would mean the end of their system, on which they have wagered everything. Therefore, further possibilities were suggested: For example, assets of the Orthodox Church, the national pension funds, and the gold reserves could be placed in a fund that would prop up the banks. Instead of being threat-

ened with the loss of their savings, the Cypriots are threatened with the loss of their pensions. Another measure that has been proposed is a tax of up to 25%, but only on assets above EU100,000.

Risk of a Run on the Banks

Meanwhile, the rumor is going around that very large sums of money have already been taken out of the country, because insiders were warned in advance of the compulsory levy. So far this year, an estimated EU20 billion have flowed out of Cyprus. Long lines formed at the ATMs of Cypriot banks, as people tried to rescue at least part of their savings.

Zepp-LaRouche: “I think the reactions in Cyprus show that a run on the banks is imminent. . . . The banks are closed until Thursday, and who knows what will happen until that time, because the trust is no longer there. Now this can spread to Spain, or to Italy. In Italy you don’t have a government; Spain could soon request another bailout. The minimum that will happen is a massive capital flight out of the euro, into the dollar and other currencies . . . and this could trigger a collapse of the system.”

She continued: “There are basically two possibilities for a collapse of the system. One is a hyperinflationary blowout, which is already underway; and the other is a run on the banks. In some ways it’s hard to even understand how these finance ministers could do what they did, because the biggest Achilles’ heel of the financial system is a run on a bank—and this was almost like an invitation to such a run. There may at some level be people who wanted to initiate such a thing, but for sure at the level of the finance ministers, they clearly committed a complete blunder. And if it comes to a run on the banks, then that’s the end of the system.”

She warned strongly against the consequences of such a collapse: “The biggest danger then would be social chaos of unbelievable dimensions. I think one can get a pretaste of what could happen from what did happen in Albania in 1997, when these financial pyramid schemes collapsed, and the Army and also the police looted the supermarkets, but also the weapons depots, and it took the Italian Carabinieri to come in after some weeks to reinstall law and order. But this is really a very dangerous development.”

How close Cyprus already is to just such a situation may be seen in a report by Reuters on March 22, that

retailers in Cyprus are having difficulty stocking their stores, because they have to pay for goods in cash. The report quotes the president of the Association of Cypriot Supermarkets, Adamos Hadijadamou, saying: “The stocks on hand will last for two or three days. We will have a problem if this is not resolved by next week.”

Iceland Leads the Way

The bad news for EU leaders comes not only from Cyprus, but also from the opposite end of Europe: from Iceland. On the same day that the Cypriot Parliament refused to dispossess the small depositors, the Economics Committee of the Icelandic Parliament voted unanimously for a motion that seeks to introduce in Iceland a two-tier banking system modeled after the U.S. Glass-Steagall Act of the Franklin Roosevelt era. The motion asks the government to set up a commission to examine whether and how the commercial banks can be separated from the investment banks.

Already there are those who recommend that Cyprus follow Iceland’s example in dealing with the banking crisis: The population there has twice refused, in referenda, to cover the losses of foreign speculators. Now the country wants to take the next step and dispose of the entire financial toxic waste in order to protect the population—the exact opposite of what could happen in Cyprus, where they are stealing from the population in order to sustain the bubble.

Zepp-LaRouche commented that the vote of the Icelandic Economic Committee was the good news of the day. The important thing is that it refers to “the real Roosevelt Glass-Steagall” and not to “any of the diluted versions by Liikanen, ‘ring-fencing,’ the Vickers Commission, the Volcker Rule, or whatever they are called. . . . The only way you can avoid a complete collapse into a dark age, is by protecting the commercial banks, putting them under state control, and forcing the investment banks to bring their books in order without taxpayers’ money. This means that probably most of these banks will be in a situation of insolvency, and then you will have to write off billions in toxic waste. But this money is only virtual anyway, so nobody really loses anything, because it does not exist.”

There will then be a huge liquidity squeeze, however, and therefore one must link the introduction of the Glass-Steagall separation of the banking system with a package of other measures: “We need to have a credit system, we have to go to a Hamiltonian national

bank—we know of such a thing in Germany from the period of reconstruction after the war, when the Kreditanstalt für Wiederaufbau, on the basis of Roosevelt’s Reconstruction Finance Corporation, gave state credit for reconstruction. That must be done in every country. And then we need, in Europe especially, a return to national, sovereign control over a nation’s own currency, which means a return to a new D-mark, a new franc, a new lira or whatever you want to call it. But you have to have a return to the national control over monetary policy.”

For this purpose, we must cancel the EU treaties from Maastricht to Lisbon. “We have to then go for an alliance of sovereign nations that are working toward common goals, such as the reconstruction of Southern Europe, for which we have submitted a program, so that it could really be done starting tomorrow. We need comprehensive solutions, otherwise it can all go totally wrong.”

Crisis Increases the Danger of War

The Cyprus crisis is also an example of how the crisis intensifies the tensions between the West,

and Russia and China: Although it is well known that a great deal of Russian money is deposited in the Cypriot banks, no one thought it necessary to inform the Russian government about the intended action.

Zepp-LaRouche: “This is a scandal in itself, and Putin and Vladimir Yakunin [the head of the Russian Railways] reacted very angrily, because [European Central Bank president] Mario Draghi happened to be in Moscow last week and didn’t tell them anything about the planned measures. This is obviously one more reflection of the arrogance of these people, that they think they can treat countries like Russia in this way—and this collapse of the trans-Atlantic system is heightening the war danger.

“As we have elaborated elsewhere, the war danger emanates from the idea of empire, that the idea of going for an Anglo-American-dominated empire when the Soviet Union collapsed, and have regime change against any country that stands in the way. That’s the same drive as the globalization of the financial system, and both of these things are now coming to a head.”

Therefore, instead of the current doctrine of geopolitical conflict resolution through war and regime change, we must introduce the idea of the common aims of mankind. An example of a common concern is shown by the concurrence of the asteroid flyby and the meteor shower over the Urals on Feb. 15. “This is a real danger, and we should now concentrate on these kinds of things, which might wipe out civilization altogether.”

Healthy Panic

At the end of her interview, Zepp-LaRouche stressed: “I think it’s better if people feel panic and help us to put through the solution—that’s a healthy kind of panic—instead of waiting until the disaster has occurred, and then it is too late. As a matter of fact, I think people *should* panic, because they have to wake up to the fact that this system is bankrupt, and we need to replace it before the chaos sets in. It is better now to feel a certain degree of intellectual panic and to help us to force the parliaments of Europe to follow the heroic example of Iceland.”

Translated from German by Daniel Platt

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—Lyndon LaRouche, Feb. 11, 2013