'We Have To Learn from the Crisis To Use Money for Rational Goals'

Prof. Wilhelm Hankel is the former head of the Money and Credit Department of the German Finance Ministry, a close collaborator of the late economist and government minister Karl Schiller, and former chief economist for Kreditanstalt für Wiederaufbau. Helga Zepp-LaRouche interviewed him on Jan. 14. The interview has been translated from German.

Zepp-LaRouche: I would be very interested in knowing what you think about the government's new Eur50 billion economic program.

Hankel: Like most citizens, I'm afraid that handing out money more or less without a plan, isn't going to revive economic activity, but rather it's going to stimulate inflation; and it would have been more correct to first prepare reasonable programs, and only then to talk about money—in other words, to give top priority to what the money will be spent for. It also would have been important to recall Germany's structural shortcoming, which has always been the fact that over two-thirds of all public investment is made by entities which have the least access to sources of funds. I'm talking about the cities and municipalities; they do the most for our citizens, but only have a marginal share of the tax revenue.

The cardinal flaw in Germany's Federal structure, and in the German economy, is that states and municipalities bear responsibility for public infrastructure, but that they don't have access to the necessary financing.

Therefore, the economic program ought to have been linked to a financial reform to assist municipalities—a reform that's decades overdue in Germany. It would have been a rapid success, because the municipalities' drawers are full of projects which are long overdue, but can't be started for lack of funding.

Zepp-LaRouche: Let me first take a step back, so that our readers—especially younger people—can get a sense of the historical tradition you come out of. You were an important eyewitness to Germany's reconstruction. You were active in Karl Schiller's ministry, and you played an important role in the Kreditanstalt für Wiederaufbau [Reconstruction Finance Corp.].

How would you explain to young people today, what the difference is between the paradigm, the scale of values, back then, and today, and what is it about that time that we can draw inspiration from?

Hankel: The time after the war was a time of a great exertion of energy by all Germans. The country lay in ruins and had to be rebuilt, and everyone knew they had to pitch in.

And the financial economy was completely tied to the real economy—to what your dear husband calls the "physical economy." During the first two post-war decades, Germany didn't have a capital market for speculation with financial investments. Our fiscal savings were what financed our real and bitterly necessary investments. The problem of a separation between a financial economy, such as we have today, and have had for some decades now, and a real sector—i.e., people's physical and social needs—did not exist back then. The physical, social, and financial sectors were all working in concert. That was very important.

Another thing that played an equally important role: Germany's economy was, from the very outset, export-oriented, because of the loss of internal markets with the splitting off of the G.D.R. [communist East Germany—ed.]. On the other hand, the circulation of money in Germany was more or less a closed cycle. Nothing flowed abroad; on the contrary, people were happy when foreign money was invested into Germany—something which could happen, thanks to the stable deutschemark and the prompt settlement of prewar debts.

In short, the entirety of today's globalization and Europeanization played virtually no role. Savings that were accumulated in Germany, were also spent and invested in Germany, which is why development was so much more stable, and also calculable. Even the economists' prognoses were more rational, better founded, and more reliable.

Zepp-LaRouche: That is certainly very important. In the Bundestag debate which is going on right now over the economic program, Mr. Solms from the Free Democratic Party argued that the state, its banking regulation, has failed. You yourself recently said in an interview that the bankers have not learned their craft. Would you please comment on this again?

Hankel: Yes. First of all, the bankers of the first postwar decade still knew what the General Welfare is. They never lost sight of the fact that they were guardians of the nation's most cherished treasure: the working people's savings—people who care about their children and their future. This must not be spent wastefully or speculatively. There were efficient bank regulators, keeping watch with the eyes of Argus. But of course, they weren't as overburdened as they've been in recent years.

Second: Since then, banking regulators, including the so-called rating agencies, have turned out to be completely unsuitable for dealing with the consequences of globalization and the innovations introduced by the world of finance. They simply didn't see—and maybe didn't want to see—that the money economy, with its new financial products that were created for the sake of globalization, had brought into existence a world of its own, entirely separate from the real economy—a playground for uncontrolled and heretofore illegal transactions. The regulatory agencies grossly underestimated the inflation and risk potential that has been building up in this new world of finance. They simply closed their eyes and took a criminal *laissez-faire* attitude.

Zepp-LaRouche: The question, of course, is who knew how much, because already back in 2003, at a meeting of the Schröder government, with Eichel, Clement, and Schröder present, Deutsche Bank's Josef Ackermann called for a so-called "bad bank," which means that they were at least aware of the high risks. And after that, the red-green government, by creating True Sale International, first really got the ball rolling for Germany's participation in the securitization market, i.e., hedge fund operations and whatnot. In other words: They knew full well what was being done, right?

Hankel: Indeed they did. You have to ask yourself: Were people back then just naive and inexperienced, or were they already complicit with the banks? It's hard to tell.

During the red-green coalition, my successor in office, a top credit and insurance regulator in the Finance Ministry, published a groundbreaking article in the leading bankers' professional journal, openly encouraging banks to introduce credit-securitized, structured, and therefore risky financial products—as a demonstration that they were part of a modern financial economy! The banking world could only draw one conclusion from this: The regulatory authorities desired these transactions, and wouldn't intervene to prevent them. That really put wind in their sails.

But as I said, it's difficult to determine what the regulatory agencies were thinking at the time. You would have to cross-examine them on whether it was just a lack of expertise, or intentional. The fact remains that the banking regulators chose to ignore the already evident risks, and therefore gave a powerful impetus to these ominous developments.

Zepp-LaRouche: It's indeed the case that Mr. Asmussen—who in 2006 wrote this remarkable article, titled "Securitization: The Finance Ministry's Perspective" in the *Zeitschaft für das gesamte Kreditwesen*, adopted and strongly espoused the findings of the Boston Consulting Group, an explicit lobby group for the financial sector. And that already raises the question: Is this just a case of ideological blindness, or might this pose the question of corruption?

Hankel: In any event, this case has to be brought before an investigatory commission. We can't get the answers on our own. We need testimony from the perpetrators and the victims; but working through the underlying causes of the crisis will have to clear up this aspect.

Zepp-LaRouche: You already mentioned the catchword "Pecora Commission." Fortunately there's a quite lively debate going on in the U.S.A. right now—for example, a slew of articles, such as in the *New York Times* and the *Los Angeles Times*, calling for the formation of a new Pecora Commission, taking as its example the historic commission that Roosevelt formed to investigate what caused the Crash of 1929, i.e., Black Friday and the subsequent financial crisis, so as to provide the basis for legislation to prevent such things from happening again. And a search is already underway for the individuals best suited to sit on such a new Pecora Commission. I really think we urgently need something like that in Europe, too.

Hankel: Absolutely. There's no question about it. As you've already said: The selection of the commission's members is critical. You don't want to make the buck into the gardener, and appoint those who helped create the credit bubble as judges of their own case. That would be the wrong way, an out-and-out farce.

But actually, the writing has been on the wall for a long time now. You didn't have to be a gifted economist or an experienced bank regulator, to know that when the gap between credit and real economic development runs into orders of magnitude—and that's been the case since the 1990s worldwide, in Europe, and in Germany—you're in a code-red state of emergency. That was clearly evident.

But what was particularly ominous, were the interpretations. I remember less about Mr. Asmussen, than I do about the world-renowned Mr. Alan Greenspan. In his testimony before numerous investigative commissions of the U.S. Senate and the House of Representatives, this longtime head of the Federal Reserve System declared that the derivatives market was totally unobjectionable. That it was self-regulating, just like any other market, and that any intervention by government authorities would be counterproductive. Imagine that! Already, the transaction volume and outstanding debt on the derivatives market were orders of magnitude greater than the development of the real economy, i.e., growth of the GDP, of corporate assets, of savings. But despite this, the man insisted: We don't need to intervene; these markets are self-correcting. And he was supported by the great majority of experts. Their mainstream was infected through-and-through with neo-liberal poison. Also Germany's "Five Wise Men" wrote year after year, "The market is good, the state is bad and stupid."

This delusion was popped along with the bubble—unfortunately with absolutely horrendous consequences, and costs.

Zepp-LaRouche: There are basically two factions. On the one side you have the people who say we have to maintain the current system somehow, and create a "bad bank" which will then be guaranteed by the state, or that the toxic financial waste must be bought up. On the other side, you have people like Italy's Finance Minister Giulo Tremonti, or France's former Prime Minister Michel Rocard, who are, for all intents and purposes, talking about a bankruptcy reorganization. They even once criticized this "bad bank" idea.

Hankel: The "bad bank" would be the absolutely wrong way, because it won't prevent bankruptcy, but will legalize it. The "bad bank" solution would mean that the state—and thus all of us—would have to finance this wastepaper with good money, with our hard-earned incomes and hard-won savings. That would amount to letting the perpetrators off the hook by bailing them out. And then the losses that had been speculatively incurred by by these arch-capitalists, would be completely socialized—*nota bene*, with money which would then *not* be available for valuable investments, additional job creation, and urgently needed infrastructure!

No, I think we have to give the bankers a chance to clean up their own manure. And that could be done. It's the thrust of my counter-proposal for treating this crisis as what it already is: a more or less fictitious crisis on the bankers' ledger books. And the bankers will have to clean up their own books. The state and the legislators can lend them a hand, by adjusting the bookkeeping laws to deal with these new problems. The banks would have to separate out their old bankrupt transactions from the new ones, by taking the old ones off the books. These could be moved into a special fund—not a state-owned fund, but rather one which would be included in the banks' own assets. And there would be provisions to assist them in dealing with this "special fund" on their balance sheets: On the reporting dates, the current and residual value of the frozen claims and obligations deposited there would have to be balanced, and the corresponding allowance for doubtful accounts would be taken. They could report these more or less worthless assets at their acquisition value, and then over a long time-span, definitely 10 to 20 years, they could depreciate them and write them off. In a word: They would have to work off their own self-inflicted losses.

That would seem to me the right course of action. For years to come, it would serve as a constant reminder to the banking world of the sins they have committed, since they would have to settle their own debt-sins. At the same time, new transactions, unencumbered by the old debt, could get the real economy moving again. The accountants' fictitious financial crisis would then not cause any real economic or employment crisis, with all its awful consequences for business, the labor market, and public finances.

Zepp-LaRouche: Very interesting. But the main problem with that at the moment, is that precisely the same people who set the stage for this bubble economy, still have their hands on the tiller when we're talking about getting rid of it. The so-called New Financial Architecture Experts Group, which was supposed to work out the new financial architecture for the G-20 this past November, includes such people as Peter Krahnen, whom I don't know—

Hankel: But I do! He is director of a think-tank that's financed by the banking business.

Zepp-LaRouche: Also an ex-director general of the European Commission, Klaus Regling; then a former chief economist of the BIS, William R. White; and Mr. Asmussen whom I already mentioned. And so we can't expect that they'll come to an axiomatically different definition; or Mr. Biedenkopf, who is currently an advisor to SoFFin. How can this problem be solved, the fact that these people hold these positions?

Hankel: It can be solved. My proposal is a systemic one: How must we change the system? What you're bringing up now, is a completely justified concern—namely, the perpetrators' liability, their accountability toward their stockholders, their clients, and the general public. They are responsible for the fact that many people have lost their money, and even their jobs.

My systemic proposal does not exclude arresting the perpetrators. If you don't prosecute them for breach of trust in mishandling public assets, then at the very least they should be held liable for the damages they have caused to others. This principle of civil law applies equally to them. Bankers have violated their highest duty, namely, their duty to care for the money entrusted to them, and to be accountable for their actions. Instead, they've carelessly gambled it away, and what's more, on transactions whose nature they concealed from their customers and the public, even when they weren't being deliberately deceptive. Indeed, behind the crisis we've got now, there's a gigantic maneuver underway to obfuscate balances. We should never lose sight of this. The guilty parties must be answerable for this and be held liable. But instead, they're being pardoned and released from custody.

I agree with you completely: The members of the investigative commission must include not only experts without conflicts of interest, but also, first and foremost, people who do not belong to the system at all. That is, people who in the past did *not* do the same transactions as their successors. There are people like that around, I think.

Zepp-LaRouche: One last question: You see all around that the crisis has jumped from the banks' ledgers into the real economy. Social unrest is becoming more frequent—in Greece, and now in Latvia. What do you see immediately ahead? What are the perspectives for the near future?

Hankel: That's in fact the number one question. It certainly seems to me that this crisis, which is quite extraordinary—one which was unleashed by professionals, or so-called professionals—can't be solved with the old recipes, namely cheap money, deficit spending, and socialization of the losses.

For one thing, the danger that the infection coming from the financial world will spread, must be stopped, and the bleeding ulcer excised. The proposals we have just made, are to that end. My proposal for balancing the books is, in my opinion, not only systemically correct; it is, above all else, inexpensive. It won't cost the taxpayer a penny, and it won't threaten the nation's finances. The banks are fully capable of working off their own damages. They'll have to be forced to do so, but also they can be shown how to do it. Even the mere reassurance that the crisis has an end-point and won't spread, will provide essential support to the economy, and breathe new life into it.

That's not all there is to it, of course. And that's why I have made my second proposal, that all of the public investment which has been so neglected during the neo-liberal period—in infrastructure, in education, in transportation, and also in trans-European transport—I'm thinking about your husband's proposals to build up the Siberian connection lines—all this must now be the top priority. Because as paradoxical as it may sound, there's something truly good about this crisis: It has made it clear that the standard neo-liberal argument that "The money's not there," is hogwash. The money's there, only now it's being used for the wrong things, and is going to waste. These are the true costs of this crisis.

Zepp-LaRouche: That's certainly true!

Hankel: In this crisis, we can now see how much money can be mobilized. And I think that the future will look completely different if we learn from this crisis how to deploy money for reasonable goals, instead of using it as we do today for largely unreasonable ends, or even asocial ones.