

BREAKDOWN CRISIS OUT OF CONTROL

Urgent Appeal for a Global Glass-Steagall System

by Helga Zepp-LaRouche

This Appeal was translated from German.

Aug. 12—It would be better if leaders found the courage to openly admit what is now obvious: The global breakdown-crisis of the financial system is out of control; it is global; there is a danger of a meltdown of the financial system and the real economy, which threatens to dwarf the Crash of 1929 and the subsequent Great Depression—and that governments have no idea what to do. Most of them have the dreadful suspicion that the European fiscal union dictated by London and the draconian austerity measures associated with it will not solve the problem, but indeed will create conditions throughout Europe such as those they are now seeing with the riots in Great Britain.

It is no wonder that we are also dealing with an unprecedented crisis of the credibility of governments, which have placed themselves at the mercy of “the markets” for the past four years, since the crisis erupted in July 2007. And instead of restraining these markets by re-regulation, they got roped in, with one “emergency” after another, to greater and greater concessions to the power of financial institutions, thereby transforming hundreds of billions of the private debt of the speculators into government debt, for which the population is now being punished, with huge austerity programs in the public budgets.

The financial sector, with one new “bailout” after another, expresses its gratitude by launching new speculative attacks, first against Greece and other EU “pe-

ripheral” states, and most recently against France and Germany, and by betting with credit default swaps (CDS) against these countries “as if the end of the world had come,” according to *Handelsblatt*). At the same time, the credit downgrades of various countries by the rating agencies has produced a contraction of the completely uncontrolled so-called shadow banking, which, because of the leverage effect of credit derivatives, is causing a geometrically accelerating collapse. Ironically, it turns out that precisely the “most profitable”—and also the most risky—sector of the casino economy is the Achilles’ heel of the system.

No to a European Fiscal Union

In this dramatic situation, the agents of the British Empire—whether the *Financial Times*, or European Central Bank head Jean-Claude Trichet, or European Commission President José Manuel Barroso, who, with his demand for an increase of the capital stock of the European Financial Stability Facility (EFSF), just two weeks after the July 21 EU summit, invoked a new “emergency”—are asserting that only the immediate establishment of a European economic government could stop the final collapse of the Eurozone. Only a European fiscal union would be bigger and more powerful than the markets, is the sophisticated argument.

Of course, such a European economic government—as was planned in the first place by the architects of the European Monetary Union—would be able to enforce,



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The Civil Rights Solidarity Movement (BüSo) rallies for a “two-tier banking system”—a Glass-Steagall system—in Berlin on Aug. 6. The European elites are as clueless about what to do about the crisis as are their American counterparts.

supposedly more effectively, precisely what “the markets” want anyway, namely the most brutal cuts, as are now being imposed on Greece, Portugal, Italy, Spain, and France—except that the states concerned would then have absolutely no veto right to protect the common good of their countries, with such already mentioned social consequences as we see in the British riots.

Such elimination of the last remnants of national sovereignty would be the last step in a whole series of violations of the national constitutions of Europe, as was confirmed yet again in the 2009 “Lisbon verdict” of the German Constitutional Court in Karlsruhe, as well as even in the EU treaties of Maastricht and Lisbon. The ECB, violating its own statutes, has, for some time, been buying up the junk bonds of bankrupt states on the secondary market—thus causing hyperinflation instead of guaranteeing the stability of the euro—and acting clearly against the interests of European states and the general welfare of the citizens.

With this attack on constitutionality, which in the U.S. is taking the form of the White House-controlled “Super Congress,” de facto destroying the power of Congress, and which in Europe is taking the form of an unconstitutional EU federal state, the representatives of

this policy have deprived themselves of their own legitimacy. The evidence of their already visible failure is average youth unemployment of over 20%, which has produced a generation of the hopeless, with no future under the present system. A continuation and intensification of this policy, as would occur in a European fiscal union, would plunge the trans-Atlantic region into a new dark age, which would soon reach every nook and cranny of the Earth.

The Glass-Steagall Solution

Faced with this existential threat, there is only one way out: a global, two-tier banking system in the tradition of the U.S. Glass-Steagall Act of 1933. The bill for a new Glass-Steagall Act, H.R. 1489, which was introduced by Democratic Rep. Marcy Kaptur (D-Ohio) in the U.S. House of Representatives, is now being cosponsored by 32 other Congressmen, and supported by the national trade union federation, the AFL-CIO; the National Farmers’ Union (NFU); and numerous regional and local trade union and party institutions, city councils, etc.

I enumerate the necessary emergency measures:

1. All the countries of the trans-Atlantic region must adopt legislation for a two-tier banking system, based on Franklin D. Roosevelt’s Glass-Steagall Act of June 16, 1933, the principles of which also existed in European countries until the early 1980s, with strict regulations under which the banking sector primarily had the character of industrial banks, and private savings could not be used for risky speculative operations.

As was the case before the repeal of Glass-Steagall in 1999 by the Gramm-Leach-Bliley Act, commercial banks, investment banks, and the insurance sector will have to be completely separated from each other.

2. The commercial banks will have to be placed under state protection; the investment banks will have to bring their balance sheets into order on their own, without the help of taxpayers' money, which in practice means that toxic paper in the trillions will have to be written off, even if it leads to the insolvency of the banks.

3. Those legitimate areas from the old system that deal with the real economy or the productive lives of working people will be identified, and be held valid in the new system. Some categories of these claims will have to be frozen at first, because of complex interdependencies, and then analyzed by a state institution, valued, and honored.

4. A national banking system in the tradition of Alexander Hamilton must then issue long-term loans, within the new credit system, with low interest rates for productive investment purposes, which, by an emphasis on increasing energy-flux density and scientific and technical progress, will raise economic productivity.

5. The participating nations must immediately establish a system of fixed exchange rates.

6. For the reconstruction of the global economy, long-term cooperation agreements will have to be concluded among sovereign states, whose purpose will be to build well-defined infrastructure and development projects. These agreements represent *de facto* a new credit system, a New Bretton Woods system, in the tradition of Roosevelt.

7. Given the decades-long destruction of industrial and agricultural capacities as a result of the monetarist dogma, beneath the level required for decent living conditions for the world's current population of around 7 billion, the goal must be to achieve, through a science-driver, the next, higher platform of economic development, as Lyndon LaRouche has formulated this from the standpoint of physical economy. As an historical example, the increase in productivity achieved by President John F. Kennedy's Apollo program has lasted to the present day.

Join me in directing an urgent appeal to parliaments and governments to fulfill their constitutional duty and to protect the common good of those they represent, by adopting a two-tier banking system immediately.