

German Banking Associations Want To Keep Dancing on the Titanic

by Helga Zepp-LaRouche

Jan. 18—The re-introduction of FDR’s Glass-Steagall Act of 1933 is currently the hottest topic in the banking world and the higher echelons of politics. An open power struggle has erupted between bankers who want to pull the emergency brake on the hyperinflationary money printing of European Central Bank head Mario Draghi and Federal Reserve chairman Ben Bernanke, and return to traditional banking, and those who want to hold onto high-risk speculation at all costs. The outcome of this debate, in which the German banks and some industry associations are unfortunately on the wrong side, will determine whether we can overcome the crisis, or whether it will end in a catastrophe for civilization.

But the cat is out of the bag: In the United States there is a revolt of the regional Federal Reserve governors against the policy of “Helicopter Ben” Bernanke, who has opened the monetary floodgates with his “Quantitative Easing 3, 4, 5,” etc. These governors and representatives of regional savings banks rightly fear that this policy will soon reach a breaking point, with devastating social consequences; this concern is reinforced by the rumor that President Obama wants outgoing Treasury Secretary Timothy Geithner to succeed Bernanke, which would mean more of the same.

In an apparently coordinated action, Thomas Hoenig, the deputy chairman of the FDIC, and Richard Fisher, head of the Federal Reserve Bank of Dallas, have taken their views to the public. [See preceding article—ed.] Hoenig, former head of the Federal Reserve Bank of Kansas City, wrote in an article in the *American Banker* that the banks’ TBTF (“too big to fail”) problem can only be solved if the “safety net” of bailouts for the speculative sections were eliminated which would drastically shrink the largest banks. Fisher also called for ending protection to the TBTF banks.

Hoenig and Fisher are regarded as Republican icons, and their public advocacy of a two-tier banking system greatly enhances the support in Congress and the Senate for a new Glass-Steagall. In the first hours of the new 113th Congress, Rep. Marcy Kaptur (D-Ohio) and Rep. Walter Jones (R-N.C.) introduced H.R. 129. A similar Senate bill is in preparation. The LaRouche Political Action Committee is mobilizing, not only in both houses of Congress for the immediate passage of this law, but is also building a national movement of mayors, state legislators, and other elected officials for Glass-Steagall.

Time is extremely short, because the recent short-term compromise on the debt ceiling means draconian austerity measures against health care and other social services (which are, in any case, not comprehensive in the United States, where nearly 50 million people live in poverty). The total U.S. debt of \$16.4 trillion includes, of course, the cost of the bailouts, which, under current conditions, would have to be paid at the expense of living standards. But if the Glass-Steagall standard were restored, this would dramatically reduce the debt, because the costs of the bailouts would be written off as illegitimate.

Whistling Past the Graveyard

Given these developments in the United States, which are of existential importance for the entire trans-Atlantic financial system, the declaration of nine (!) German banks and industry associations in favor of universal banking and against a two-tier banking system means they are defending the current casino economy, but also whistling past the graveyard, given that the trans-Atlantic financial system is at its end, and there is a serious reform movement underway.

In its eagerness to defend the “historically evolved” universal banks, the Association of German Banks, in its [press release](#) of Jan. 17, failed to mention that the

German banking system was once highly regulated. The statement that “stable financial markets are of great importance for the German economy” is a truism, and certainly corresponds to the desire of the productive *Mittelstand* [small and medium-sized enterprises], but the mechanisms by which this stability is to be achieved also have to correspond to such an intention.

We have just had in Germany a prime example of a universal bank—Deutsche Bank—which last December was subject to two police raids, one with 500 armed officers, under suspicion of tax fraud, obstruction of justice, fraudulent trading in CO₂ emission allowances, interest rate manipulation, and possibly also money laundering. The [Angelides Report](#) devoted 40 pages just to Deutsche Bank, which are now being reviewed by the New York Attorney General.

As long as the business model of universal banks, for which Deutsche Bank is symptomatic, defines the world financial system, a hyperinflationary explosion is imminent—and with it brutal looting of the population, so as to let the gamblers continue for a very short while. And, the representatives of the nine German associations that are defending the universal banks, and attacking the two-tier banking system are exposed as just as incompetent as the IMF, which is repeating the argument of the defendants at the Nuremberg Tribunal, namely that they totally underestimated what the impact of their own policy towards Greece would be.¹ Who benefitted, after all, from all the bailouts which, according to [Social Democratic Party candidate for Chancellor and former Finance Minister] Peer Steinbrück, amounted to EU1.6 trillion just between 2008 and 2010, costs which were passed on to the taxpayer? Naturally, the universal banking system!

As we all know, the argument of the Nuremberg defendants, that they did not know everything that was going on, did not spare them from the punishment they deserved.

No, the universal banking system puts us at the mercy of the robbers! Andreas Schmitz, president of the Association of German Banks, is, after all, also chairman of the board of HSBC Trinkaus & Burkhardt AG—and HSBC is the bank that was the focus of hearings

1. See “IMF Nuremberg Defense on Greece: We Had No Idea What It Would Lead To,” *EIR*, Jan. 11, 2013.

before the U.S. Congress for money laundering on a grand scale for the Mexican drug mafia. And ECB head Mario Draghi and outgoing Italian Prime Minister Mario Monti have proven themselves to be devoted puppets of another glorious universal bank, Goldman Sachs, which was prosecuted relatively lightly for a long list of irregularities, only because its behavior corresponds to the concepts of globalization and the Anglo-American Empire. And in this world, the only offense is getting caught.

There is good reason to assume that the signatures on the scandalous statement of the nine associations, defending the universal banks, came into existence in the same way as the approval by all recent EU summits of the various bailouts and permanent rescue mechanisms, such as the EFSM [European Financial Stability Facility] and the ESM [European Stability Mechanism]: “If this, that, and the other are not done, the markets will get nervous or even collapse, etc., etc.” And so far, this method of blackmail has worked well.

Momentum for Glass-Steagall

But now the introduction of a two-tier banking system is seriously on the agenda—in the United States, Iceland, France, Belgium, Italy, and some other countries. Banking separation is just the first step; it must be followed by the introduction of a credit system in the tradition of Alexander Hamilton, in which the power of credit creation is solely the responsibility of sovereign national governments. Whether the nine German banks and industry associations like it or not, if the United States returns to a Glass-Steagall standard, the European nations will also have a two-tier banking system.

If you want to prevent a short-term hyperinflationary explosion as in 1923, in which the Eurozone falls apart in chaos, and we plunge even deeper into a Dark Age than we have already done, then join us and mobilize for separation of the banking system—not the proposal of the Liikanen Commission, the Volcker Rule, the “ringfencing” of the Vickers Commission, or any of these other watered-down versions, but only the original 1933 Glass-Steagall Act of Franklin D. Roosevelt. Then the world can be led out of the Depression, just as Roosevelt did it in the 1930s!

Translated from German by Susan Welsh