

SWISS PARLIAMENT

## Glass-Steagall Vote Sends The World a Powerful Signal

by Claudio Celani

Sept. 14—The Swiss National Council (the lower house of parliament) voted on Sept. 9, with a 3:2 majority, for three distinct statements calling for a strict, Glass-Steagall type of banking separation system. Switzerland is a major world financial center. If the parliament's will is implemented, the two large banks, UBS and Credit Suisse, will be split and trillions of speculative liabilities will be hung out to dry, representing a Lehman Brothers effect on steroids for the international financial system.

And yet, no mention of such an important decision was to be found in the international media, with the exception of a tiny article in the German financial daily *Börsen-Zeitung*. A curtain of silence has been drawn on a decision of enormous systemic relevance.

Sure, the Swiss vote is not yet a legislative act. Swiss banks are not threatened with separation in the short term. However, the intention was expressed to put an end to the Too Big To Fail (TBTF) system, and that intention is enough to shake the house of cards. That is what the financial oligarchy fears and that explains the blackout.

Not so in Switzerland. The day after the vote, the debate exploded in full force, with the bank lobby protesting the “unholy alliance” of left- and right-wing parties that made the vote possible. Indeed, it is a political breakthrough that the Socialist Party (SP) and the Swiss Popular Party (SVP) joined in a strategic alliance for banking separation, putting aside all other issues where they strongly differ. The Green Party also joined the coalition.

The government (Federal Council), where a Liberal/Conservative/Christian Democratic coalition has the majority, opposed the vote and lost. The vote binds the Federal Council to give a formal answer to the request of whether a banking separation in Switzerland is possible. Predictably, it will set up a “commission of experts,” filled with bank representatives, which will repeat its “no” to the idea, as it did in 2010.

SP representative Corrado Pardini announced that his group is preparing a request for a national referendum (*Volksinitiative*) to be presented soon to the federal Chancellor, to check its formal validity. The referendum is an important in-



Corrado Pardini, SP

stitution in the Swiss political system: Such referenda can be held if at least 100,000 citizens request one, on any issue, and the result has the same validity as an Act of Parliament. Barely a year passes without a referendum, often more than one. Recently, for instance, a referendum established a limit on executive compensation.

A referendum would make it possible to bypass the government's opposition to Glass-Steagall, as well as problems in the upper house, the Council of the States (Cantons), where the SP/SVP/Greens do not have a majority. Pardini is confident that a referendum will yield 60% "yes" votes for a banking-separation system.

It is not yet known whether the SVP will join the campaign for the referendum.

## A Recent Shift

The first attempt at an alliance for a banking separation reform started in 2009, when industrialist Nicolas Hayek (of the Swatch Group) brought SVP founder Christoph Blocher and SP Secretary General Christian Levrat together to announce an initiative in a press conference. However, the alliance failed, and when it came to a vote in 2012, the SVP and SP split.

The attempt was recently resumed by an SP group around Pardini, in the context of what an insider has described to *EIR* as a "*basilar*" (grassroots) sentiment in the Swiss population to defend national independence against the assault of what they perceive as "American-dominated" financial globalization. Certainly, a trigger for the political reaction was the new Swiss banking regulation introduced at the end of 2012 by the financial authority Finma, to implement a "bail-in" of large banks at the expense of bondholders and depositors. The new regulation, adopting global directives issued by the Financial Stability Board, was exposed by *EIR*, Aug. 23, 2013, and circulated to the Swiss public, generating a wave of indignation. This, together with pressures on Switzerland to surrender to more cross-border financial deregulation, the



*Christoph Blocher, SVP*

NSA data-collecting scandal, and the U.S. government's war policy, have led to resolute opposition in Swiss public opinion.

This produced the first political result when the SP and SVP joined in a vote June 16 against the so-called "Lex USA," an agreement to share data of Swiss banks with U.S. financial authorities. The next day, Pardini presented his "Bank Security Initiative" at a public event in Bern, presenting it in the following way:

"The separation between investment and commercial banks takes the risk connected with financial trading away from savings and credit activities, downsizes large banks, and deprives them of the undesired

and anti-market government guarantees. Separated banks strengthen customer protection and bank efficiency. They support business with larger availability of credit. This ensures jobs in industry, trade, and the service sectors.

"The decoupling of government from investment banks eliminates the danger of ruinous bailouts, because investment banks can go bankrupt without pulling down tens of thousands of firms, as it was argued in 2008 in the UBS case. If their bankruptcy threatens the international financial system, the IMF should take care."

Pardini made it clear that he considered all proposals floated in Europe for a "soft" separation as unworkable, and made explicit reference to the 1933 Glass-Steagall Act in the United States as the model.

In the following weeks, behind-closed-doors negotiations took place between Pardini, who was backed by the SP national leadership, and SVP strategist Christoph Blocher. Thus, it was not a surprise to insiders that, as parliament reopened on Sept. 9, the alliance of the two parties plus the Greens, on this issue, would come out in the open.

The bank lobby deployed its media and political representatives to attack the proposal, referring to an "unholy alliance" of the parties, and rejecting as scandalous the proposition that "politicians and officials" would involve themselves in banking affairs (*Neue Zürcher Zeitung*).

However, reflecting the broad support in the population, the media was split.

### The Glass-Steagall ‘Success Story’

Outstanding was the report by Philipp Lopfe in *Tagessanzeiger* on Sept. 10, under the headline “A reasonable separation.” After stating that banking separation is not “an exotic idea,” and exposing the TBTF blackmail, the article describes “the success story” of Glass-Steagall, which lasted more than 60 years. By the time President Clinton abrogated it, Glass-Steagall had already been considerably “perforated.”

Banking separation would benefit Switzerland, UBS, and Credit Suisse, Lopfe writes. The former has allegedly downsized its investment banking, but “not everybody is convinced that UBS does what it says. The Knight Vinke investors group accuses [UBS CEO] Sergio Ermotti of having simply put the largest part of investment banking in a “bad bank,” to deceive shareholders.” Knight Vinke is convinced that UBS should turn into a capital-management bank, as “the most profitable model.” Credit Suisse has reduced the investment-to-private-banking ratio from 60/40 to 50/50.

“Conclusion: Basically, a banking separation system in Switzerland is feasible. For UBS, a return to capital management activity would even be the best business model. The consequences for employment would be contained, because both big banks manage their investment banking in London and New York. With the implementation of a separated banking system they would both be smaller, but much more Swiss.”

### Assertion of National Independence

Author Gian Trepp, who has campaigned for Glass-Steagall, also wrote in his blog that the vote terminated “the phase of fatalistic acceptance of the status quo in the unsolved issue of Too Big To Fail. The fact is that UBS and CS destabilize the Swiss economy. In relation to the real economy, which produces the largest number of jobs, both large banks are still so big, that a highly probable insolvency could collapse the entire economy.”

“There is a basic sentiment in the population,” Trepp told this author; the parliamentary vote was a reflection of that. It is certainly a distinct Swiss character of “neutrality,” which is another word for “independence,”

rooted in the centuries-long history of a *willen-nation*—i.e., a nation built by the will of different peoples coming together. This explains, he said, how it is possible that ideologically distant political factions can join forces on an issue that pertains to the national interest. Switzerland’s historically rooted “neutrality” reflex has consequences for the “business model” that the Swiss want to defend.

This feeling of independence (“Yes, we could call it a Wilhelm Tell reflex, although Wilhelm Tell is a mythological character”) turns against what in Switzerland is perceived as an “American” attack on the Swiss financial system, and the fact that the two big banks, UBS and Credit Suisse, are no longer Swiss. “The USA has humiliated Switzerland,” he said.

The Swiss vote has sent a powerful political signal. It is the reaction to a situation that has strategic, economic, and military effects. The financial assault against Switzerland, the NSA scandal, and President Obama’s drive for war are seen as one picture, which makes it urgent for the nation to take steps to secure its own integrity. This is a message that must be heard and understood throughout the world.

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—Lyndon LaRouche,  
Feb. 11, 2013

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