Imagine You Wake Up . . . and the Global Financial System Is Gone!

by Helga Zepp-LaRouche

May 21—That is just what could happen, since neither the U.S. Senate, nor the German Bundestag, nor the G20 countries, have yet done anything to prevent it. On the contrary: The financial reform bill just passed by the U.S. Senate, which left the fattest loopholes for speculators, has increased the instability enormously. And the Bundestag's rubber-stamping of the EU750 billion "rescue package" for Greece has accelerated the dynamic of disintegration of the global financial system—whether by a chain-reaction domino effect, or by global hyperinflation.

A taste of what could happen at any time, on a much larger scale, was shown by the collapse of the Dow Jones on May 6, when it fell by 10% in 16 minutes, wiping out $700 billion, with the automatic trading systems apparently on autopilot. The quick and partial rebound that occurred then, might not happen the next time, and the whole world financial system could actually disintegrate overnight. All it would take is another grave mistake, somewhere on the globe, and the world could plunge into chaos.

EIRNS/James Rea

Helga Zepp-LaRouche: Only a real reorganization of the world financial system will make it possible to overcome the crisis.

Only hours after the Senate passed the version of the financial reform bill demanded by the White House and top executives of Wall Street, a *Newsweek* blog compared the law to a doughnut, with a huge hole in the middle, "that is so critical to the success or failure of the bill that it becomes the legislation's defining characteristic"!

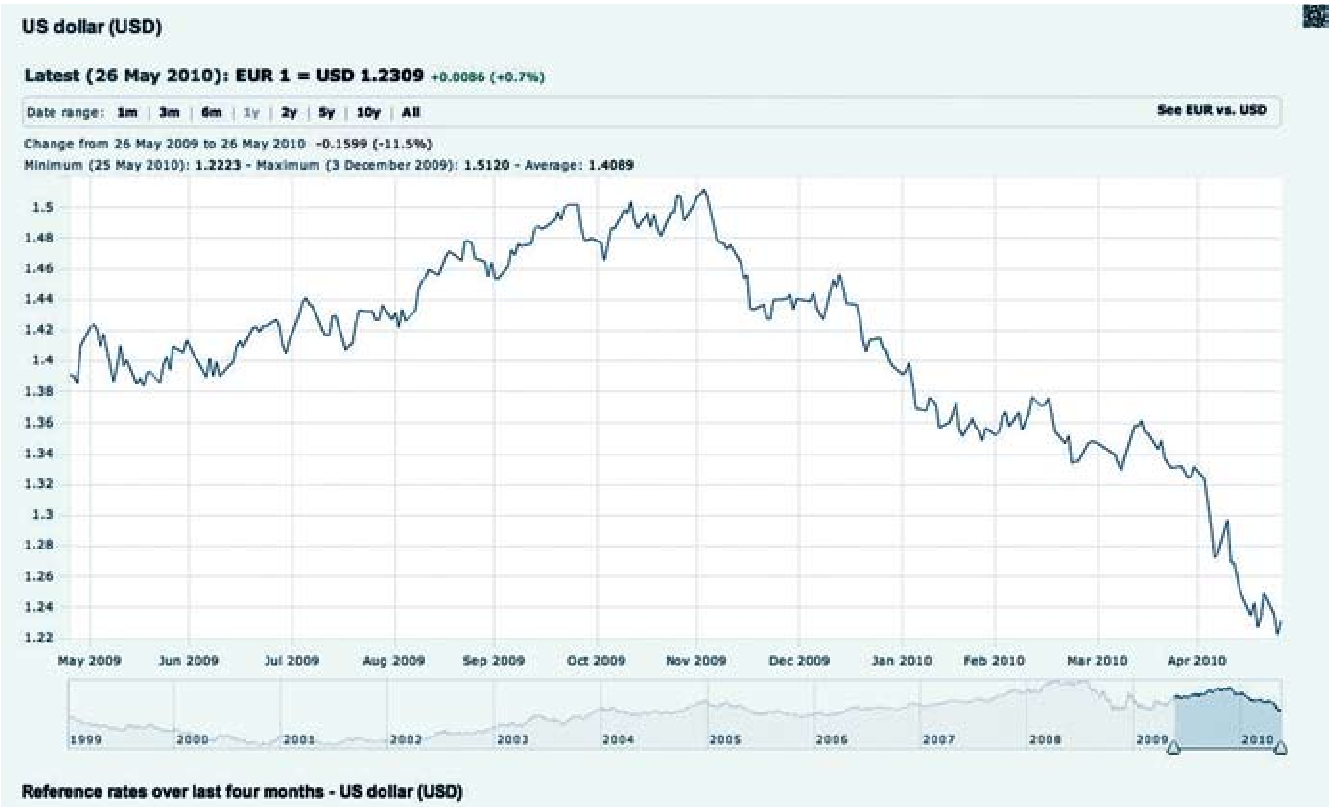
Newsweek's comment refers particularly to the fact that the amendment on controlling derivatives trading that Sen. Maria Cantwell (D-Wash.) had tried to bring to a vote, was blocked by Senate Majority Leader Harry Reid, as was the amendment that would have reintroduced the Glass-Steagall standard. *Newsweek* quoted a source who said that, in Cantwell's view, "the bill is a joke," because "the clearing of derivatives and exchange trading is the heart of the whole bill." And that's precisely what is missing.

As the result of this vote, the derivatives trade, which the American people rightly blame for the crisis, is not only *not* restricted, but the U.S. Senate has destroyed its credibility in this matter, once and for all. For in the preceding debate, many Senate Democrats, such as Byron Dorgan (N.D.), Jeff Merkley (Ore.), Bar-

FIGURE 1

The Euro's Downward Plunge Against the Dollar

(May 26, 2009 to May 26, 2010)



bara Mikulski (Md.), Tom Harkin (Iowa), among others, gave fiery speeches promising to support the amendments of Cantwell, McCain, and Feingold, for reintroduction of a split banking system,[1] and of Blanche Lincoln (D-Ark.), for control of derivatives.

But the leading Wall Street banks' top lobbyists, who have decades of expertise in the manipulation of Congress, made sure, together with the White House, that those same Senators, who pledged support for the amendments, turned out to be full of hot air, voting on the first ballot to end debate, and then voting for the bill without the changes that would have ensured that the high-risk speculation would have been eliminated. Not even the watered-down "Volcker Rule" was voted up. Even the new Republican Senator from Massachusetts, Scott Brown, who was elected to office with support of the Tea Party movement, evidently had all the fight taken out of him. Washington sources report that there have never been such massive threats, manipulation, and money transfers, as in the days leading up to the vote.

What this means is that the credibility and influence of Lyndon LaRouche and his Political Action Committee have never been greater; they are seen as the only force that is not discredited, because before the vote, they launched a nationwide mobilization for restoring the Glass-Steagall Act and replacing the casino economy with a credit system. This mobilization will now continue, given the deplorable behavior of the Senate; Members of Congress, will face, what promises to be for them, the very unpleasant task of explaining to their angry constituents, during the upcoming Memorial Day holiday, why they capitulated to Wall Street, once again.

Merkel's Surprise Announcement

However, certain relevant Washington circles responded respectfully to the German government of Chancellor Angela Merkel and the BaFin's[2] banning of

1. The FDR-era Glass-Steagall Bill, repealed in 1999, erected a "firewall" between investment banking and commercial banking.

2. Germany's financial regulatory agency.

naked short sales of stocks and government bonds, as well as unsecured credit default swaps. The news of this action sent some hard-nosed bankers into a state of shock, since they never would have thought that Germany, of all countries, would act unilaterally—at least on this point—to prevent the German taxpayer from having to pay the consequences of these short sales. Meanwhile, in Austria, Belgium, Holland, Switzerland, and the Czech Republic, there are signs that they may be ready to follow suit.

Obviously, the German government, by adopting this measure, was taking revenge for the massive pressure that President Obama, British Prime Minister Gordon Brown, French President Nicolas Sarkozy, and EU Commission president José Manuel Barroso, had applied to Chancellor Merkel, who agreed to the EU750 billion rescue package, after long resisting it. The above-mentioned gentlemen were treading in the footsteps of Margaret Thatcher, François Mitterrand, and George H.W. Bush, who once pressured Chancellor Helmut Kohl, against his better judgment, to agree to the European Monetary Union—the euro—as the price for their acceptance of German reunification.

The Austrian daily *Die Presse* (May 15) spoke of a

Chancellor Merkel Breaks the Mold

May 24—In a decisive action, which, while limited, puts the U.S. and other world leaders to shame, Germany's Chancellor Angela Merkel reasserted Germany's sovereignty, by ordering a unilateral ban on short selling of certain securities last week.

Germany's financial market watchdog, the BaFin, banned, as of midnight May 18, all naked short sales of assets of the top ten financial institutions in Germany, among them, Allianz, Commerzbank, Deutsche Bank, and Deutsche Postbank, as well as of state bonds of the Eurozone countries and CDS on risks of Eurozone countries. The measure, taken unilaterally, provoked a storm of protest on financial markets internationally—not so much for the effects of the ban itself, as for the fact that Germany had taken the decision without first alerting other governments.

While the French government expressed official embarrassment at not being consulted by the Germans, other influential voices in France supported the move, such as Jean-François Kahn, publisher of the magazine *Marianne*. He wrote on May 19 that "Madame Merkel has taken a genuine measure to regulate financial markets," while "you know who"—meaning French President Nicolas Sarkozy—has done nothing. "Let me remind you that in my own recent proposal for global financial reform, I called for prohibiting naked short selling, which is nothing but an organized way to ruin people's savings and to make money on their backs."

From a purely rational standpoint, Kahn wrote, "the Chancellor is absolutely right."

The German ban also elicited respect from those in the U.S. Senate who are fighting for reestablishment of the Glass-Steagall Act, especially after Lyndon LaRouche issued a statement on May 19, welcoming the German move as showing a quality of leadership which President Barack Obama and his collaborators in the Senate lack. In the meantime, it seems that similar moves are being studied by Austria, Belgium, the Netherlands, Switzerland, and the Czech Republic.

German Finance Minister Wolfgang Schäuble made short shrift of the critics of the move, in an interview with the May 20 London *Financial Times*, saying that "if you want to dry the swamp out, you don't ask the frogs first." He went to denounce deregulated markets: "We must regulate over-the-counter transactions, and we must also focus on the ratio of financial transactions to the real exchange of goods and services. They bear no relationship to each other. I understand that we need new financial instruments to cope with the huge financial tasks that we face. But, forgive my saying so, minimum profits of 25% are simply unimaginable in the real economy. It isn't healthy."

In a statement issued a few hours after the ban went into effect, Helga Zepp-LaRouche welcomed the measure, saying that, "The flipped-out reactions to the decision of the BaFin," should "serve as confirmation to Chancellor Merkel, that the German government has done the right thing.... It demonstrates that Germany still has a government."

—*EIR Staff*

RegierungOnline/Bergmann

German Chancellor Angela Merkel addresses the Bundestag on May 19, announcing the sovereign decision to ban certain speculative financial instruments.

www.wolfgang-schaeuble.de

German Finance Minister Wolfgang Schäuble said of Berlin's decision to ban certain securities: "If you want to dry the swamp out, you don't ask the frogs first."

"monetary coup d'état," in which the European heads of state and finance ministers had decided on nothing less than a "genuine currency reform," which changed the euro into an inflation-prone soft currency, and made all EU members collectively responsible. By purchasing government bonds of bankrupt states, the European Central Bank (ECB) has lost all credibility, the article said.

The same can be confidently said about the German Bundestag and the Bundesrat, which gave the go-ahead on Friday, May 21, for the German share of the bailout package—around EU150 billion—although the euro, completely unimpressed by the mega-package, had slipped from Monday through Thursday from 1.30, to sometimes as low as 1.22, against the dollar. The combination of the mega-bailout package, the ECB's massive easing of monetary policy, brutal austerity, and the European debt brake, means a disastrous combination of hyperinflation in the tradition of 1923 Weimar, plus Chancellor Heinrich Brüning's austerity policy of the beginning of the 1930s.

"Tagesthemen" TV news then reported on who was really profiting from the (probably unconstitutional) package—not the Greek population, which is going to have to tighten its belts, but, among others, Greece's richest banker, Spiro Latsis, whose Eurobank holds EU12 billion in Greek government bonds, and aboard whose luxury yacht EU Commission president Barroso has spent his vacation several times.

Thus, we have the same problem as in previous votes, whether on the health reform (as leading Christian Democratic parliamentarian Friedrich Merz himself said), or on the Lisbon Treaty, which the Members of Parliament had obviously not read: that the parliamentarians have almost no idea about what they are voting on. At least Chancellor Merkel admitted that for her, and for politicians in general, it is difficult to figure out the complex processes in the financial markets, and disinterested advisors are hard to find in the financial sector. To say it a bit more clearly: The representatives of the financial interests lie through their teeth.

They depend upon people's short memories, just like Obama's economic advisor Larry Summers, who verbally welcomed the Wall Street-approved version of the U.S. financial reform, saying that if this law had been in effect, the crisis would never have occurred! Summers of all people, who was one of the key people responsible for abolishing Glass-Steagall in 1999! The hyperventilated speeches of the Greens and the Social Democratic Party in the Bundestag, however, were just as duplicitous; what the stony-faced Sigmar Gabriel (SPD) has apparently forgotten, is that it was the Red-Green coalition[3] that introduced deregulation of the financial markets and True Sale International[4] to Germany in 2004.

A Global Glass-Steagall Needed

Neither the EU750 billion package, nor the austerity and budget control measures designed by the European Union, will stop the escalation of the systemic crisis; on the contrary, they are making the situation worse. Only a real reorganization of the world financial system, dealing with the problem at its root, will make it possible to overcome the systemic crisis.

The only real way out is the immediate introduction of a split global banking system—a global Glass-Steagall—protecting the commercial banks, and making

3. Social Democratic-Green.

4. This was the legislation that allowed hedge funds and private equity funds to operate.

loans available for industry, agriculture, and trade, while protecting the people's life savings. Anyone who wants to continue with high-risk gambling will do so at his own risk, and will no longer be able to count on the taxpayers' money to bail him out.

The "creative financial instruments" introduced by U.S. Federal Reserve Chairman Alan Greenspan in 1987—i.e., derivatives and securitization—are as little needed for a well-financed real economy as is currency speculation, which must be prohibited by fixed exchange rates. The current hopelessly bankrupt monetary system must be replaced by a credit system, in which long-term multilateral agreements are concluded among sovereign states, over two or more generations, investing in such future-oriented projects as infrastructure, the inherently safe high-temperature nuclear reactor, thermonuclear fusion, manned space flight, and other revolutionary technologies, to increase the productivity of the economy and lead to full, productive employment.

For the parties that are represented in the Bundestag, the current economic crisis is evidently too complex, since not one has rejected the EU package on a principled basis. Support the BüSo, the only party which has long predicted the crisis, which knows today how to overcome it, and which has the courage to call a spade a spade.

Italian/Euro Lawmakers Back Glass-Steagall

Muscardini Brings Resolution to EuroParliament: On May 17, Cristiana Muscardini, deputy chairman of the International Trade Committee in the European Parliament, filed a resolution to the parliament, entitled, "On the Advisability of Re-Establishing the Principles of the 'Glass-Steagall Act' in the New Rules To Be Defined To Overcome the Systemic Financial Crisis." It reads:

"The European Parliament, considering the various meetings of the Ecofin and Eurozone member countries to confront the crisis of the euro, which, since January, has lost 14% of its value with respect to the U.S. dollar, [and] considering the previous resolutions on the financial crisis and the need to define new rules to avoid the growth of speculative bubbles;

"A. Considering the function played in the U.S.A. in 1933 by the 'Glass-Steagall Act,' which, in the midst of the 'Great Depression,' protected banking deposits from speculation;

"B. Considering the amendment filed in the U.S. Senate May 6 by Democratic Sen. Maria Cantwell and Republican Sen. John McCain, as an amendment to President Obama's financial reform introduced by Sen. Chris Dodd, modelled after the Glass-Steagall legislation that separated commercial banks from investment banks, preventing the latter from using taxpayer money;

"C. Considering the inadvisability of bailing out bankrupt banking operations with taxpayer money;

"Invites the Council and the Commission

"1. To consider the advisability of referring to the principles of the 'Glass-Steagall Act' in defining new rules to overcome the systemic financial crisis;

"2. To propose initiatives to reduce the excessive expansion of virtual money and to favor actions aimed at fostering investment for development, the only type of investment that produces real wealth and that can actually contribute to reducing debt."

Italian Parliamentarian Polidori Calls for Revival of Glass-Steagall: The Hon. Catia Polidori, a leading member of the Productive Activities Committee of Italy's Chamber of Deputies, has called for restoring Glass-Steagall. Polidori, from the majority Freedom People party (Pdl), is a former chairwoman of the young entrepreneurs section of the national confederation of small enterprises, Confapi.

"Considering the role of purely speculative financial instruments in the very serious economic crisis underway, we must regulate markets so that finance is at the service of the real economy, not the other way around," Polidori said.

"In light of the debate underway in the US Senate on the financial reform bill and the need to restore the Glass-Steagall law from 1933, I believe it is essential to insist on the primacy of the productive economy, which requires well-defined rules, investment, and protection from the predatory mechanisms which have already caused so much damage. I hope that the vigorous debate which has emerged in the United States will lead to reflection and similar actions in Europe as well, before it is too late for our families and businesses."