
Pro-Regulation Campaign Gains Ground

After a standstill of several months, debate about effective financial market regulation resurfaces.

Despite the near-default of Industriebank (IKB), a leading creditor of the *Mittelstand* (small and medium-sized industry) at the end of July, most of August passed by without any indication of a serious commitment among the established institutions to acknowledge, much less deal with, the global financial crisis. Chancellor Angela Merkel and her Christian Democrats (CDU/CSU) have not faced reality, as shown by the debate about the new party program, at a convention in Hanau on Sept. 4: no mention of the onrushing banking crisis, but a lot of hot air on global warming, instead.

By contrast, the LaRouche Movement's mass-leafletting and other political organizing activities through the Summer have borne fruit, at least on the left spectrum of German politics, reviving the pro-regulation debate there.

In an op-ed for the *Süddeutsche Zeitung* daily on Aug. 29, Dierk Hirschel, chief economist of the DGB, the national labor federation, noted that the hedge fund disease had struck back, that the "curse of the Caribbean" finally hit Deutsche Bank, when Bear Stearns shut down two of its hedge funds. Other German banks, from IKB to West Landesbank and Postbank, to Sachsen Landesbank, have been hit since, by the U.S. mortgage crisis, also related to hedge fund activities, with considerable losses suffered on that account.

All that makes the case once again for regulation, Hirschel wrote, proposing five steps to achieve that: 1) Without the banks, hedge funds are noth-

ing; therefore, the banks must control the funds; 2) increased risk provisions for hedge funds; 3) ending tax-exempt status for such funds; 4) derivatives trading to be permitted only at regulated stock exchanges; 5) state control of rating agencies.

Unfortunately, Hirschel did not elaborate on his idea that the finance sector must stop its casino-style gambling and return to its classical economic mandate of financing industry. The argument was, however, also brought up by Klaas Hübner, a deputy chairman of the Social Democrats' parliamentary group, who said the day after, that ideas were needed to reassign the banking sector to its real mission, which is financing industrial enterprises.

Finally, on Sept. 3, the chairman of the Social Democrats' parliamentary group, Peter Struck, called for regulation of hedge-fund activities, in an interview with *Der Spiegel*, one of Germany's leading weeklies. Voicing criticism of the neo-con orientation of the Christian Democrats, which he said was increasingly hampering cooperation with them in the Grand Coalition government, Struck said that, for example, conflicts could be expected around "the question of the hedge funds and private equity funds." He said that there should be restrictions for funds' ability to acquire shares in important industrial sectors like energy production or car-making—comparable to restrictions in place for military-relevant industries. "If you know that some 'locust funds' can buy up big German companies

without any problems, an industry-dependent state like ours cannot take that easily.... Limits can be posed. There will be a hard conflict with the Union, also with the Chancellor. But this time, we cannot be content with unbinding declarations of intent like those passed at [the G-8 summit this Summer] in Heiligendamm."

Struck added that he thinks there should be a 25% barrier of shares that must not be crossed by funds, if they buy into firms—the same barrier set for foreigners who want to buy into German military-related companies. His remarks provoked instant angry responses from the Christian Democrats, who insist on "voluntary restraint," rather than regulation. Against this increasing controversy, the first session of the parliamentary committee on finances on Sept. 11 may be somewhat turbulent, because its agenda has only one topic: "Repercussions of the U.S. mortgage crisis on the German financial sector."

The moves on the labor union and Social Democratic side are promising, but they are only the first step in the right direction. The problem is that the global banking collapse has worsened to such an extent, that measures like hedge fund regulation are certain to fail, because the real challenge is what the aforementioned steps have so far avoided to address: how to reorganize the banking sector, so that it resumes its former role as a lender to productive projects.

As Struck's remarks were being publicized on Sept. 3, the LaRouche Youth Movement launched a mobilization in Berlin leading up to that parliamentary session on Sept. 11, to saturate the environment of that session, as well as the staffs of the committee members, with Lyndon LaRouche's most recent constructive proposals, including the Homeowners and Bank Protection Act.